

Austria	94.00	Italy	100.00	Poland	100.00
Belgium	94.00	Japan	100.00	Portugal	100.00
Denmark	94.00	South Korea	100.00	Spain	100.00
France	94.00	Taiwan	100.00	Sweden	100.00
Germany	94.00	Thailand	100.00	Switzerland	100.00
Greece	94.00	USA	100.00	UK	100.00
Hungary	94.00	Yugoslavia	100.00		
India	94.00				
Indonesia	94.00				
Israel	94.00				
Italy	94.00				
Japan	94.00				
Korea	94.00				
Malaysia	94.00				
Netherlands	94.00				
Norway	94.00				
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Portugal	94.00				
Spain	94.00				
Sweden	94.00				
Switzerland	94.00				
Taiwan	94.00				
Thailand	94.00				
UK	94.00				
USA	94.00				
Yugoslavia	94.00				

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

SOVIET UNION

A time for measures, not men

Page 15

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Wednesday March 13 1991

World News

Business Summary

Soviet miners call strike, resignation of Gorbachev

Miners' leaders in the Soviet Union's two largest coal fields called for an all-out strike, demanding large pay rises and the resignation of President Mikhail Gorbachev and his government.

The decision in the west Siberian Kuzbass, and Ukrainian Donbas fields, follows Mr Gorbachev's refusal to meet the miners or hear their demands until all return to work.

Page 4

EC to discuss peace

European Community leaders will hold an early summit to discuss peace in the Middle East. Page 2

Land laws scrapped

South African government submitted draft legislation to scrap laws enforcing racial discrimination in residential areas and land ownership. Analysis, Page 3

Romanian 'split'

Romania's ruling National Salvation Front is likely to split formally into two or three groups at next week's congress, according to President Iliescu. Page 5

Farmers protest

Czech authorities faced mounting opposition to its reforms when 15,000 farm workers demonstrated in Prague against the break-up of large agricultural collectives. Page 4

Maxwell makes deal

Robert Maxwell, UK publisher, said he had reached agreement in principle on job cuts with all 10 trade unions at the strikebound New York Daily News and expected to acquire the paper from the Tribune Company of Chicago.

Palestinians freed

Hundreds of Palestinians released from jail by Syria were welcomed to Lebanon by guerrillas who fired shots into the air.

German charged

German public prosecutors charged 12 businessmen with helping Iraq make poison gas, the first such court action against German companies. Page 2

US link with Albania

US and Albania are to restore diplomatic relations severed more than 50 years ago.

Johannesburg calm

An overnight curfew brought relative calm to Johannesburg's black townships, where at least 56 people have died since Saturday in fighting between rival black groups.

Civil war stepped up

Rebels in Mozambique appear to have stepped up attacks on the Maputo government despite efforts in Rome to end the country's 15-year civil war.

Algerians strike

Algerian workers began a three-day general strike hitting production of oil and gas.

Greek bus blasts

Greece's left-wing urban guerrilla group, November 17, claimed responsibility for five Athens bus blasts.

Moscow plans to privatise over 23,000 companies

Soviet government said it planned to privatise more than 1,000 retail stores, 9,300 public catering facilities and 12,800 businesses in the services sector.

In its first report to the council of the General Agreement on Tariffs and Trade (GATT), the Soviet delegation reaffirmed Mikhail Gorbachev's commitment to making the transition to an internationally open market-oriented economic system. Page 16

CARLO De Benedetti's long-running battle with Italian judiciary over his role in the Banco Ambrosiano collapse took a turn for the worse when the Milan appeal court sent him for criminal trial on charges of involvement in fraudulent bankruptcy. Page 16; Banco Ambrosiano Veneto profits rise, Page 18

Platinum rose in early trading as post-war euphoria in the US commodities markets carried metals prices higher. Like silver, it is being seen increasingly as an industrial rather than a precious metal. However, profit-taking by Japanese investors reversed the price rise and the metal closed \$10.75 an ounce down in London at \$401.75.

Platinum

\$ per troy ounce

Feb. 14th 1991 Mar

MARKETS: In Frankfurt closed mixed, with strength in the automotive sector, construction and specialised chemicals offset by a flat day for financials, steel and engineering. The DAX index closed 5.85 higher at 1,571.51. Paris finished almost unchanged in moderate trading, as Wall Street's early weakness neutralised hopes of an interest rate cut. The CAC 40 index closed 1.22 lower at 1,795.46. In New York, concern about corporate earnings and the economy pushed equities slightly lower in moderate trading in the morning. At 2 p.m. the Dow Jones Industrial Average was off 1.49 at 2,937.87. In Tokyo shares traded in a narrow range, but a rise in the yen and bond prices triggered a late rally with the Nikkei average rising for the fifth consecutive session to close 58.05 higher at 26,727.42 on volume down from \$50m to \$30m.

World Stock Market reports, Back page, Section II

STANDARD Chartered began second UK clearing bank to reduce its dividend by cutting its second-half payment from 22.5p to 7.5p. Page 17

ASHTON Mining, Australian group which operates the world's largest diamond mine, announced a 2.6 per cent increase in net profit to A\$32m (\$26m) for the year to March 12 on revenue up 14.5 per cent to A\$226m. Page 20

OMRON, Japanese maker of computerised control equipment, is to pay ¥8.6bn (\$47m) for Nippon Data General, Japanese subsidiary of Data General of the US. Page 22

POLAND: trading in shares of the country's first five privatised companies is due to start on the Warsaw Stock Exchange on April 16, government officials said, with the official opening in June. Page 23

TRINIDAD and Tobago Oil, state-owned company, is spending \$400m on a secondary oil recovery programme and expansion and upgrading of its oil refinery. Page 34

More rioting in Belgrade raises fears of martial law

THOUSANDS OF anti-communist demonstrators again took to the streets of Belgrade, the Yugoslav capital, yesterday amid growing fears that the army would impose martial law, writes Laura Silber in Belgrade and Judy Dempsey in London.

There has been concern that any intervention by the army in Serbia, the largest of the six republics, could precipitate the breakup of Yugoslavia and risk plunging the country into civil war.

Police in full combat gear patrolled the streets of Belgrade, also the capital of Serbia, as students stepped up their demands for a free press and the resignation of Mr Slobodan Milosevic, Serbia's communist president.

Tension increased after Mr Borisav Jovic, the Yugoslav president, called for an emergency meeting of the collective presidency - comprising the presidents of the six republics and two provinces - to consider the federal army's role in the crisis.

Mr Jovic, a close ally of Mr Milosevic, said the army had requested the meeting. "It was immediately convened at the

demand of the defence minister," he said.

In London, the Foreign Office warned that economic assistance to Yugoslavia would be at risk if the authorities again meted out "heavy-handed treatment" against demonstrators. Mr Svetozar Rikanovic, the Yugoslav ambassador, who was called to the Foreign Office, was reminded that Yugoslavia had, in a number of areas, sought western assistance. An official said: "Such help depended on Yugoslavia's continued progress towards democracy."

In Belgrade, the defence ministry warned that "the armed forces will carry out the orders of the state presidency as the country's head of state, and not the wishes of any single republic, party or individual."

But Mr Milan Kucan, the former communist party leader of Slovenia warned the collective presidency against "trying to push through a state of emergency..."

Slovenia, which has voted for secession from the Yugoslav federation, did not attend yesterday's meeting of the

Continued on Page 16



Anti-Communist demonstrators in Belgrade yesterday brandish pictures of Serbian activist Vuk Draskovic, arrested on Saturday

Saudis plan to reassert dominant role in Opec

By Deborah Hargreaves in Geneva

SAUDI ARABIA is planning to reassert its dominance over the world oil market by increasing its production capacity over the next few years to a record level of 12m barrels a day (b/d) from a peak of 8.75m b/d.

The first signs of this tough, new approach by the world's biggest independent oil producer emerged yesterday as the kingdom opposed moves by radical members of the Organisation of Petroleum Exporting Countries (Opec) to make deep cuts in the current levels of production.

At the end of a tough two-day meeting, the first since the end of the Gulf war, the organisation agreed to cut Opec output by about 1m b/d to 22.3m b/d in the second quarter of this year in spite of opposition from Iran and Algeria.

Yesterday's agreement involves a cut in output of about 5 per cent by most Opec producers.

The agreement signalled a split between Saudi Arabia and Algeria, whose oil minister, Mr Sadeh Bouassena, holds the presidency of the organisation.

Significantly, Mr Bouassena did not announce the deal, as

he has on previous occasions. The production cut was announced by Dr Subroto, secretary-general of Opec, who also called on countries outside Opec to contribute proportionate cuts in production.

Dr Subroto reiterated Opec's commitment to a \$21-a-barrel reference price - the target price established last July - which is important to Iran and many smaller producers who want higher oil prices to boost revenues.

However, yesterday's cut in output is not expected to be sufficient to bring prices to \$21 a barrel and other smaller producers had been pushing for a bigger cut as a way of forcing up the price.

The agreement is, in any case, voluntary and would be difficult to enforce.

News that the organisation had agreed to cut its crude oil production had little impact on prices, which had edged lower for most of Tuesday, oil traders said.

In London, North Sea Brent Blend crude oil for April delivery was quoted at \$18.425 a barrel, down 12 1/2 cents.

Saudi Arabia's aggressive new production policy represents a significant break with its attitude over the past few years. The kingdom would boost its capacity by increasing investment in new technology and this would enable it to extract more oil from its current fields.

Saudi experts believe there will be an increase in demand in the next few years and they think it is important to have idle capacity to boost production at short notice.

It was Saudi Arabia's ability to raise its output from 5.4m b/d before the Gulf crisis to a sustained level of 8.5m b/d that played a crucial part in calming the oil market during the war. The Saudis increased their production by more than 3m b/d during the Gulf war and are in no mood to relinquish their higher market share which increased from one quarter to one third of Opec output.

Saudi Arabia believes that by increasing its production capacity to a maximum of 12m b/d in the next three to five years, it would be in a position to sustain output at 10m b/d.

Saudi Arabia has not played such a forceful role inside Opec since 1986 when Sheikh Zaki

Yamani was the kingdom's oil minister.

A Saudi official yesterday indicated that the country would be looking to achieve maximum stability in the oil market in future.

While this is also in the interests of the US with which Saudi Arabia was allied in the Gulf war, the official stressed there was no conspiracy between the two countries.

Mr Colaninza Aghazadeh, Iran's oil minister, said yesterday the organisation should return to June's quotas. He said Iran's output was 3.8m b/d in February although this is higher than other estimates which put it closer to 3m b/d.

Mr Jibril Aminu, Nigeria's oil minister, said it was important to send a signal to the market "that will prop up prices and prevent a slide in price and maybe even see it pick up a bit."

Saudi Arabia's plan for a 5 per cent cut in output would mean cutbacks by all producers except Algeria, Indonesia and possibly Ecuador. The kingdom has stressed that the production cuts will cover total sales, meaning production and sales from stocks.

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Central banks act to put brake on rise in dollar

By Peter Norman, Economics Correspondent, in London

CENTRAL banks yesterday achieved a partial success in their efforts to brake the dollar's rise. Sterling advanced to \$1.855 from \$1.851.

After two days of intervention, it was far from clear that the central banks had succeeded in quelling the market's new-found enthusiasm for the dollar.

Analysts say that the latest inflow of funds into the US largely reflects an adjustment of investment portfolios rather than short-term speculative money movements which are easier to reverse by intervention.

Concerns about the German economy have weakened confidence in the D-Mark. Some investors believe that the US economy is about to recover from recession and are anticipating a rise in US interest rates following the recent fall to 6 per cent in the federal funds rate, at which banks lend to each other.

All change on dollar intervention, Page 5; Currency, Page 42

European trading hours. The dollar closed in London at DM1.5705 against DM1.5785 the previous day. Sterling advanced to \$1.855 from \$1.851.

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All change on dollar intervention, Page 5; Currency, Page 42

Palestinians tell Baker not to ignore PLO in peace process

By Hugh Carnegie in Jerusalem

PALESTINIAN leaders in the Israeli-occupied territories yesterday told Mr James Baker, the US secretary of state, they would reject any attempt to bypass the Palestine Liberation Organisation to achieve an Arab-Israeli peace settlement.

The talks took place as Washington announced that President George Bush planned to visit the Middle East later this year. His trip could include stops in Kuwait, Israel, Egypt and Saudi Arabia. No dates or exact itinerary have yet been established.

US anger with the PLO and its leader Mr Yassir Arafat over the organisation's support for President Saddam Hussein of Iraq, provoked suggestions that an alternative leadership should be sought for peace talks, or that Palestinian representatives should be attached to an Arab state.

A group of 10 senior Palestinians from the occupied West Bank and Gaza Strip told Mr Baker during an hour-long meeting that they rejected this approach, long demanded by Israel.

"The PLO is our sole legitimate leadership and interlocutor, embodying the national identity and expressing the will of the Palestinian people everywhere," said the delegation, led by Mr Faisal Husseini, in a memorandum handed to Mr Baker.

The group put less emphasis on previous demands for an international Middle East conference but was unyielding on the role of the PLO.

Ms Hanan Ashrawi, one of the 10, said that Mr Baker had asked if they were willing to encourage by what he called "new thinking" by Washington's Arab allies on the Arab-Israeli dispute, Mr Pazner said the start of a peace process might be in prospect, "but it is too soon to judge".

A looming obstacle is the refusal of Mr Shamir's hardline coalition to accept the "land for peace" formula enshrined in UN resolutions 242 and 338 which the US supports.

There was no sign yesterday of any progress on this key issue.

"To focus only on the UN resolutions can lead only to failure," said Mr Yossi Ben Aharon, head of the prime minister's office.

Saddam retakes rebel cities, EC calls emergency summit, Schwarzkopf files in amid tight security, plus other Middle East news, Page 2

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Union referendum puts passion into Moldavian politics

President Mikhail Gorbachev's referendum on the preservation of the Soviet Union, scheduled for Sunday, has yet again brought to boiling point the simmering tension in the border republic of Moldavia.

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MARKETS

STERLING New York lunchtime: \$1.8595 London: \$1.8585 (1.851) DM2.9175 (2.8225) FF9.9625 (9.975) SF2.5325 (2.5375) ¥253.25 (255.5) £ index 93.2 (93.4)	GOLD New York: Comex Apr \$366.1 (368.2) London: \$364.7 (366.05) N SEA OIL (Argus) Brent Apr \$18.425 (-0.125)	DOLLAR New York lunchtime: DM1.572 FF5.3585 SF1.362 Y136.2 London: DM1.5705 (1.5795) FF5.355 (5.38) SF1.362 (1.3705) Y136.25 (138.0) Tokyo close: ¥136.05 \$ index 62.9 (63.2) Fed Funds 6% 3-mo Treasury Bills: yield: 6.02% Long Bond: 95 3/8 yield: 8.23%	STOCK INDICES FT-SE 100: 2,454.8 (-4.3) FT Ordinary: 1,947.8 (-8.4) FT-A All-Share: 1,195.72 (-0.1%) New York lunchtime: DJ Ind. Av. 2,698.8 (+0.24) S&P Comp 372.5 (-0.46) Tokyo Nikkei 26,727.42 (+58.05) LONDON MONEY 3-month interbank: closing 12 1/4 (12 1/8) Libor long gilt future: Jun 91 9 1/8 (Jun 92 9 1/8)
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MEZZANINE

OUR SINGLE OBJECTIVE

1990

<p>PORTFOLIO FUNDS LTD</p> <p>£59,000,000</p> <p>MEZZANINE CAPITAL</p> <p>INVESTMENT</p>	<p>FF2,105,000,000</p> <p>MEZZANINE CAPITAL</p> <p>INVESTMENT</p>	<p>ARTO INTERNATIONAL BV</p> <p>DM60,000,000</p> <p>MEZZANINE CAPITAL</p> <p>INVESTMENT</p>	<p>RENPAC USA LTD</p> <p>£18,000,000</p> <p>MEZZANINE CAPITAL</p> <p>INVESTMENT</p>
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CONTINUING ACTIVE INVESTMENT IN EUROPE IN THE 1990'S

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THE MIDDLE EAST

EC calls emergency summit on Mideast

By David Buchan in Brussels

EUROPEAN Community leaders are to hold a special summit in early April to discuss what they can do to promote peace in the Middle East and how they can react more in common towards such crises as the Gulf war.

In response to France's call for a summit soon, Prime Minister Jacques Senter of Luxembourg, which holds the EC presidency, said yesterday he was ready to call a meeting, possibly on April 5.

Mr Robert Kimmitt, the US under-secretary for political affairs, yesterday told the Nato Council that the opportunity for peace-making had to be seized quickly before attitudes hardened again into their pre-Gulf war mould. This was also the conclusion that the EC troika of Luxembourg, Dutch and Italian ministers brought back from their talks with Arab and

Israeli leaders last week.

Despite the summit call, most EC leaders seem ready to let the US take the lead in peace-brokering. France, according to its foreign minister, Mr Roland Dumas, is willing to give direct Arab-Israeli negotiations, as demanded by Israel and favoured by Washington, a chance ahead of the international peace conference formula that Paris and its EC partners prefer.

Mr Kimmitt told Nato allies that Mr James Baker, the US secretary of state, had been carrying a detailed blueprint with him around the Middle East, but was seeking views on fostering post-war security arrangements, the peace process, arms control, non-proliferation and economic co-operation.

Anthony Robinson adds from Moscow: Prospects for a Middle East peace settlement domi-

nated talks between Turkish President Turgut Ozal and Soviet President Mikhail Gorbachev in Moscow yesterday.

Mr Gorbachev and Mr Ozal also signed a friendship treaty, a double tax agreement and a new 10-year trade pact to further expand bilateral trade, which has quadrupled since 1985, in talks which also considered the creation of a Black Sea economic co-operation zone.

The two leaders discussed the Kurdish question. Turkey and Iraq both have large Kurdish minorities while there is a small community within Soviet borders.

Mr Ozal is to visit the Ukraine, Kazakhstan and the largely Turkic-speaking republic of Azerbaijan and made clear that Turkey was interested in expanding trade and other ties with individual republics as well as Moscow.

Bonn brings poison gas charges

By David Marsh in Bonn

GERMAN public prosecutors yesterday charged 12 businessmen with helping Iraq make poison gas, the first court action over German companies' suspected involvement in Baghdad's war industry.

The action was announced by the Darmstadt public prosecutors' office which has been leading investigations into the Iraqi poison gas connection. The Darmstadt office has since 1987 been investigating activities in Iraq of a cluster of companies in the state of Hesse.

The charges lodged at the economic section of the Darm-

stadt district court allege that the accused broke German laws on illegal weapons transfers by passing chemical weapons technology to Baghdad.

Prosecutors believe that plant sold to Iraq was designed not to make pesticides, as claimed by the suppliers, but to manufacture mustard gas and nerve gases such as Tabun.

The affair, centering on Iraq's Samarra complex, has been in the public eye since US officials accused Bonn of laxity in policing controls on exports of equipment to make chemical weapons.

The bringing of charges had been expected since German police arrested seven people in connection with the case last August. All but one were released on bail.

The Darmstadt prosecutors originally investigated about 30 people in connection with the poison gas affair, but later scaled down the scope of the inquiry.

Scores of other German companies have been investigated for alleged illegal transfers for Iraq's non-conventional weapons programmes, but no other charges have yet been brought.



ALERT: Outlined against a black smoke-filled sky US troops guard Gen Norman Schwarzkopf in Kuwait city yesterday

Schwarzkopf flies in amid tight security

Kuwaiti port opens after allies clear mines

By Michael Field in Kuwait

THE Kuwaiti port of Shuaiba, one of the nation's largest, was reopened yesterday. It marked the beginning of a return to normal life with regular water and food supplies expected to follow in the next day or so and materials for reconstruction later.

Shuaiba port, several miles south of Kuwait City, is virtually undamaged and British and American divers found no mines in it, though there were some shells and other small munitions on the bottom.

The main mine hunting work has been done on the channel leading to the port. After the reopening one

American and one Soviet ship arrived, bringing fresh drinking water to Kuwait. The hope is that in the next few days cargoes of food will arrive followed by equipment and materials for reconstruction. The reopening of the port is expected to remove the bottleneck at the Saudi border, which has been the main cause of delay in resupply and reconstruction so far.

The shortage of food is beginning to become a problem in Kuwait. During the Iraqi occupation Palestinians travelled to Basra and Baghdad to buy supplies of basic foodstuffs, which they sold under

the supervision of the leaders of each district of the town. Kuwaitis should be able to go to Saudi Arabia to buy food, but for security reasons the government has been slow to issue them with travel documents and in practice supplies from the kingdom have been few. The government has imported some rice and cooking oil, but many families say they cannot cook because they have run out of gas.

Serious shortages are developing and people are starting to complain of government incompetence. Most are existing on stocks built up during the occupation. Most shops are

still closed and there is little bread to be had. The International Hotel, where the press corps is staying, is providing no food at all and one ministry with a temporary base there is keeping its bread under lock and key.

Reuters adds: Kuwait's ports chief Captain Abdul-Rahman Naibari said 10 berths would soon be operating at Shuaiba. Air traffic into Kuwait however remains minimal. US officials said it would be several weeks before the international airport could reopen to commercial traffic.

Meanwhile General Norman Schwarzkopf, commander of

the allied forces that drove Iraq from Kuwait, accepted sand from a beach in the emirate yesterday as a souvenir of his victory.

The general flew in for a quick visit amid security so tight the US embassy was closed to all visitors.

The general met Kuwait's prime minister, Crown Prince Sheikh Saad al-Abdullah al-Sabah, and was due to hold talks with Kuwaiti generals later in the day.

Thousands of American soldiers are in Kuwait, many working to restore basic services such as food supplies, water and electricity.

Saddam retakes two rebel cities

By Lara Marlowe in West Beirut and agencies

IRAQI troops retook two major southern cities as Kurdish rebels slowed their march on the main oil town of Kirkuk out of concern for 5,000 civilian hostages reported held there, anti-government sources said yesterday.

Reports from rebels in and outside of Iraq portrayed a country still torn by insurrection, with many areas seeing-sawing between government and insurgent control.

"Several towns change hands repeatedly," said one source at a meeting in Beirut of 35 Iraqi opposition leaders from 23 factions.

The Iraqi opposition leaders conceded that Saddam Hussein's troops had recaptured the Shiite Muslim holy cities of Karbala and Najaf after heavy fighting there on Monday.

According to Iran's official media, the loyalist forces used napalm to try to crush the rebellion in Basra.

Iran's official Islamic Republic News Agency, monitored in Nicosia, quoted the Patriotic Union of Kurdistan as saying the government threatened to kill 5,000 Kurdish hostages, mostly women and children, who had allegedly been rounded up and taken to Kirkuk.

PUK spokesman Barhem Saleh said in London that fears for the hostages' fate was slowing the rebel advance on the city.

In Beirut Iraq's underground Shia Moslem Dawa Party yesterday dissociated itself from past bombings and assassination attempts in Kuwait and

extolled the virtues of parliamentary democracy.

With 40 delegates attending the conference, the Dawa has the largest representation of any single group. It claims to have the largest following inside Iraq.

"The party had previously claimed responsibility for the 1983 bombings of the US and French embassies in Kuwait City and an attempt on the life of the Emir."

"Our weakest point is the world's misconceptions about us," said Mr Abu Bilal al-Adibi, the leader of the Dawa delegation to the Beirut Congress. "People mistakenly associate us with bombings in Kuwait and Beirut."

Dr Mowaffak al-Rubaie, a Dawa representative based in London said: "We have all recognised the need to have a parliamentary system. As soon as we get into Iraq, we have to have a general election."

Secular delegates have expressed fears that the Dawa and other pro-Iranian Shia groups would seize power if Mr Saddam is overthrown.

"The opposition will drive Saddam out, and afterwards the strongest will win." The same source said neither the Americans nor the Iranians want the rebellion to triumph - the Americans because they fear Iraq would become an Islamic Republic on the Iranian model, the Iranians because they believe Saddam's fall could lead to the installation of a pro-Saudi, pro-American puppet government in Iraq.

Hogg visits Syria for peace talks

MR DOUGLAS HOGG, UK minister of state at the foreign office, arrived in Damascus yesterday for talks on Middle East peace and Western hostages held in Lebanon.

He is the first British minister to visit Damascus to press relations restored in November last year after four years.

"We want to stress our willingness to establish good relations with the Syrian government," Mr Hogg said. Meetings would focus on ways to achieve peace in the region.

"I will ask the Syrians to persuade the Iranians to press the Lebanese groups holding Western hostages to free them, especially since Syria has helped and exerted efforts in the past to win the freedom of these hostages," Mr Hogg added.

Three Britons, six Americans, two Germans and an Italian are missing in Lebanon. Most are believed held by Shiite militants financed and backed by Iran, Syria's main ally in the region.

● Iraq was equipped with more ultra-sophisticated French laser-guided bombs at the start of the Gulf War than the French air force, Mr Pierre Lellouche, a top strategic analyst, has written in *Le Figaro*.

Iraq went into war with 240 AS-30B bombs, the pride of the French munitions industry, compared to only 180 for the French air force, he added.

Only the outbreak of the war and an arms embargo against Baghdad had prevented delivery of Iraq of a further 340 AS-30B.

Canadians hope to secure share of Kuwaiti contracts

By Bernard Simon in Toronto

CANADIAN businessmen have returned from Kuwait hopeful of winning a share of reconstruction contracts amid the stampede by US, British and French companies.

The group, accompanied by Mr Joe Clark, external affairs minister, met the head of the US Army Corps of Engineers, which is supervising emergency reconstruction, and leading Kuwaiti businessmen.

Mr Jim Taylor, president of the Canadian Exporters' Association, and a member of the group, said that his message to Canadian companies will be: "The earlier that you get there, the earlier you will make deals. Don't wait until the five-star hotels are up and all the telephone lines are working."

Ottawa is now organising a much bigger group to accompany international trade minister John Crosbie to Kuwait in late April or early May. In addition the Canadian Commercial Corp, an agency specialising in government-to-government contracts, is expected to station a procurement expert at the Canadian

embassy there. Among the items which Canadian companies are eager to supply to Kuwait are telecommunications equipment, helicopter services, power generation equipment, computer hardware and software, port handling equipment, a microwave airport landing system and a range of consumer goods.

Mr Taylor said the group gained the impression that after the initial emergency phase of reconstruction, "the Kuwaitis won't just be replacing what they lost. The sense we had is that they will look at the latest and the best."

Canada's contribution to the war effort consisted of a relatively small contingent of naval vessels, fighter-bombers and a field hospital.

David White, Defence Correspondent adds: Shanning Group, a UK medical equipment supplier, has won an \$11m order from the Saudi Defence Ministry for mobile medical units and says negotiations were well advanced for contracts in Kuwait. The con-

tract for 150 Land Rovers is being financed from the multi-billion-dollar Japanese fund set up in support of allied forces in the Gulf conflict.

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INTERNATIONAL NEWS

Hawke takes an axe to tariffs

By Kevin Brown in Sydney

MR BOB HAWKE, Australia's Labor party prime minister, yesterday announced a package of tariff cuts, tax changes and other measures intended to bring the economy into line with its more dynamic Asian neighbours.

Mr Hawke said the package would boost Australian competitiveness and help reduce the current account deficit which is running at an annual rate of more than A\$17bn (£6.9bn), in spite of a recession induced to cool the overheated economy.

"The days of our being able to hitch a free ride in a world clamouring, and prepared to pay high prices, for our rural and mineral products are behind us," Mr Hawke told parliament. "The rest of the world will not allow us to continue indefinitely to live beyond our means by borrowing from them."

However, there was little new in Mr Hawke's statement, and most commentators criticised the absence of measures to speed up reform of the labour market and the transport sector.

The government has missed a major opportunity to put the country on the right track to a competitive economy. Most of the measures are just tinkering at the edges," said Dr Michael Deeley, chairman of ICI Australia.

The strongest reaction came from the powerful interest lobby, which opposes proposed legislation

to give pulp and paper making companies secure access to forestry resources for projects worth more than A\$100m.

The influential Wilderness Society said Labor had abandoned the environmental movement, which is credited with keeping the party in power at the last election a year ago. The society said it would advise people not to vote Labor at the next federal election, due by 1993.

Mr Hawke said the package's centerpiece would be continued cuts in the general level of tariffs, from a target of between 10 and 15 per cent next year to 5 per cent by 1994.

Tariffs on passenger vehicles will fall from 35 per cent next year to 15 per cent by 2000, and protection for textiles, clothing and footwear will be cut from a maximum of 65 per cent to 25 per cent. Import quotas will end in 1993.

Anti-dumping measures will be strengthened to prevent unfair competition, and preferential tariff regimes for Singapore, Taiwan, Hong Kong and South Korea will end next year.

The tariff cuts were criticised by textile manufacturers and the five foreign-owned domestic car makers.

The package will cost A\$33m this year, climbing to A\$65m by 1992/93. Mr Paul Keating, the Treasurer (finance minister) said it would have no impact on the projected federal budget surplus this year.



A child looks on as a soldier patrols in Alexandra township near Johannesburg yesterday where police and troops are trying to keep order

Pretoria drafts the end of apartheid

Legislation aims to take 187 laws off the statute book, writes Patti Waldmeir

THE South African government has tabled draft legislation to scrap all laws enforcing racial discrimination in residential areas and land ownership - but it resisted calls for compensation for blacks whose land was seized under apartheid.

The laws which have ensured that blacks own only 13 per cent of South Africa - though they make up three quarters of the population - are to be abolished as South Africa's grotesque experiment in social engineering is finally abandoned. Their abolition, which is expected to be effective by June, will fulfil a promise made by Mr F.W. de Klerk, the President, at the opening of parliament on February 1 this year.

A British foreign office spokesman "warmly" welcomed the development and said he expected the European Community to move "swiftly" and lift the Community ban on the import of iron and steel and gold coins from South Africa.

The African National Congress land commission said it found the draft legislation "deeply disappointing" because it ignored the passions aroused by the former policy of forced removals, and rejected outright the demands of displaced blacks for reparation.

Unveiling the government's white paper on land reform yesterday, Mr Hernus Kriel, minister of planning and provincial affairs, put it simply: "Anybody will be able to buy any land anywhere in South Africa" after the legislation was scrapped

(the Group Areas Act and the Land Acts of 1913 and 1936, plus some 185 other laws).

But the estimated 3.5m blacks who have been evicted from their homes in the past 30 years to satisfy the demands of Pretoria's policy of "separate development" - which provided for all blacks to be removed from "white" South Africa to separate tribal "homelands" - would receive no compensation, and no opportunity to reclaim their property.

In a phrase which has enraged anti-apartheid activists, the white paper says only that it "would not be feasible" to restore land "to individuals and communities who were forced to give up their land on account of past policies or other historical reasons".

The comments of Mr Stoffel van der Merwe, minister for national education, who presented the white paper to the press, did little to help relations with the ANC. He insisted that blacks "were not robbed of their property" - though they were forcibly removed - saying that in most cases alternative land was provided.

In addition, government would make no attempt to prevent discrimination by private sellers of land, Mr Kriel said. "If you're the owner of a property, you can decide whether to sell that property or not," Mr Kriel said. "You can't stop people from putting clauses into contracts which would bar sale to people of colour," he noted, adding that to do so would, however, be

illegal according to South Africa's common law.

Mr de Klerk said in a statement that the aim of the new legislation would be "to broaden opportunities for all, while preserving lawfully acquired rights".

Affirmative action to help blacks buy houses and obtain agricultural finance and extension advice was also announced, although there were few details. Some 300,000 people with registered leasehold rights or deeds of grant would be given full ownership almost immediately, and tenure rights on a further 1m residential sites could be upgraded to ownership in due course, the white paper said.

Up to 470,000 hectares of land would also be made available for black farming settlements, though this is a fraction of the amount anti-apartheid groups say is needed to satisfy black land hunger.

The white paper also proposes measures to protect "standards" in established communities, though ministers insisted they could not be used to enforce white exclusivity. "It will be illegal for any local authority to pass regulations... whereby certain areas are reserved for whites, blacks, Indians or coloureds," Mr Kriel said.

However, local authorities could make by-laws to maintain "norms and standards", including measures to combat over-crowding, to enforce the maintenance of premises "in a tidy and hygienic condition" and to ensure the "orderly and civilised use of public facilities".

Five laws to end segregation:

● Abolition of Racially Based Land Measures Bill. Repeals the Group Areas Act that segregates urban suburbs, the Land Acts of 1913 and 1936 which restrict black farming to 13 per cent of the country, and the Black Communities Development Act, which provided for the establishment of segregated black townships. Would give blacks equal property rights.

● The Upgrading of Land Tenure Rights Bill. Converts 99-year leases to full ownership for about 300,000 black householders; single property register for all races; ownership of government land currently leased to rural tribes for communal farming transferred automatically to those tribes.

● Residential Environment Bill. Allows residents to set minimum standards for existing suburbs.

● Less Formal Township Establishment Bill. Speeds up creation and approval of new settlements, mainly squatter camps and shanty towns, all with minimum facilities.

● Rural Development Bill. Encourages farm development and creation of new towns in rural areas. This would allow neighbourhoods which chose to do so to "retain the particular community character of their area... but no longer in a racially exclusive manner backed up by statutory measures," the white paper said.

Gulf war result jolts N Korean thinking

By John Ridding, recently in Pyongyang

NORTH Korea is likely to reconsider military strategy after the crushing victory of the US-led coalition in the Gulf, according to diplomats in Pyongyang and Peking.

"The Gulf conflict was a nasty shock for the leadership in Pyongyang," says one diplomat in Peking. He believes North Korea's military, which depends on similar hardware to that used by Iraq, may now conclude that the type of war it had planned for against South Korean forces and US troops in South Korea is now a "non-option".

The border which divides the Korean peninsula has remained one of the world's most tense areas since the end of the Korean war in 1953. North Korea's 1.1m strong army faces South Korean forces of 650,000, which are backed by 45,000 US troops. The two sides have never signed a treaty ending the 1950-53 war and peace is maintained only by an armistice agreement.

Diplomats argue that the concentration of the bulk of North Korea's army in areas near the border with South Korea makes it vulnerable to a

strategy of air strikes, used with such effect by coalition forces in Iraq and Kuwait.

They claim that this is likely to prompt Mr Kim Il Sung, North Korea's president and commander-in-chief, to consider re-deploying some of his troops to areas further north. "This is something we have been seeking a long time and would help reduce tension on the peninsula," says one western diplomat.

But even without troop movements, defence analysts see benefits from the outcome of the Gulf conflict. "The main impact of the war is on the minds," says one, "the greatest dividend is a demonstration that such aggression will not be allowed by the international community."

An Asian diplomat stationed in Peking also argues that the outcome of the war will boost the standing of the US military in the region. "People in Asia used to regard the US as a paper tiger because of its failure in Vietnam. But the Gulf war has changed all that."

Pyongyang will also be concerned about the performance of Soviet military hardware during the Gulf conflict.

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NEWS IN BRIEF

Food and medical aid flown in to Baghdad

The International Red Cross sent more than 600 tonnes of food and medicine to war-ravaged Baghdad yesterday in a race to beat the threat of epidemics, Reuter reports from Amman. The International Committee of the Red Cross and other humanitarian aid agencies are worried that epidemics could break out soon in Iraq once the weather warms up, usually by the end of March.

The World Health Organisation estimates that Baghdad's water supply is down to 5 per cent of its pre-war level.

Spain ready to cancel Egypt debt

Spain is willing to cancel about half of Egypt's £1.3bn debt to Madrid, Spanish officials said on Tuesday, Reuter reports from Cairo. Mr Francisco Fernandez Ordóñez, the foreign minister, told reporters after talks with President Hosni Mubarak that Madrid would take "a very positive attitude" towards reduction of the debt.

Syria frees Palestinians

Syria released hundreds of Palestinians from jail yesterday and guerrillas welcomed them to freedom in Lebanon by firing shots into the air, Reuter reports from Sidon.

About 300 Palestinians and some Lebanese loyal to Mr Yassir Arafat, chairman of the Palestine Liberation Organisation, arrived in Lebanon within hours of their release being announced, security sources said.

PLO sources in Tunis said 4,000 to 5,000 Palestinians had been in Syrian prisons, most held since relations between Arafat and Syrian President Hafez al-Assad soured in 1983.

China 'will not bale out HK'

China is concerned about the future financial stability of Hong Kong and would "not spend a penny" to bale the territory out of a monetary crisis after it regains sovereignty in 1997, Lu Ping, director of Peking's Hong Kong and Macao Affairs Office and China's most senior official with direct responsibility for the colony's affairs, said in Hong Kong yesterday, writes John Killeff in Hong Kong. "The burden would have to be shared with extra taxes by every Hong Kong resident and that is something we hope not to see because we want Hong Kong to maintain its low tax policy after 1997," he said.

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INTERNATIONAL NEWS

Mood of crisis deepens as Soviet miners call strike

By Quentin Peel in Moscow

MINERS' leaders in the Soviet Union's two largest coal fields yesterday called for an all-out strike, demanding huge pay rises and the resignation of President Mikhail Gorbachev and his government.

The decision in the West Siberian Kuzbas, and Ukrainian Donbas fields, follows the refusal of Mr Gorbachev to meet the miners' demands until all the miners return to work. All the signs are that the industrial unrest, which began fitfully at the start of the month, is spreading and becoming increasingly political.

The Council of Workers' Committees in the Kuzbas decided on Monday to call a full-scale strike in the region, based entirely on political demands. They are calling for the resignation of Mr Gorbachev, the dismissal of the present Supreme Soviet, the national parliament in Moscow, and the lifting of all restrictions on the broadcasts of radical Russian radio and television, and demonstrating their support for Mr Boris Yeltsin, the Russian president.

In the Ukrainian Donbas, the

miners' leaders yesterday called for an all-out strike, because the central government had ignored their demands for a 150 per cent pay rise.

They claimed that 67 out of 264 pits in the coalfield were already backing the stoppage, 19 more than on Monday. In the Kuzbas, strike action has been patchy, but local journalists said this was a deliberate strategy by strike leaders to stagger their protest. This was now being stepped up.

Tass, the official news agency, which has consistently played down the strike action, admitted last night that "the situation in the Kuzbas is getting more complicated", with two mine construction organisations joining four striking mines in the towns of Novokuznetsk, Kiselevsk, and Bereznovsky. Mass meetings were being held at many other mines, the agency said.

On the other hand, both railway and steel workers in the region have been opposing the action, also urging a "yes" vote in Sunday's referendum on the preservation of the union as a unitary state.

Poll puts passion into Moldavian politics

By Quentin Peel in Moscow

PRESIDENT Mikhail Gorbachev's referendum on the preservation of the Soviet Union, scheduled for Sunday, has yet again brought to boiling point the simmering tension in the border republic of Moldavia.

On the one hand, the nationalist-dominated parliament in Kishinev, the republican capital, has formally voted not to hold the referendum. On the other, the dissident Turkic, Russian and Ukrainian-speaking minorities in the republic are equally determined to vote in favour of the union.

Caught in the crossfire, the local Communist Party has split between nationalist and loyalist forces, and Mr Mircea Snegur, president of the republic, who has hitherto attempted to reconcile the conflicting demands of Moscow and his



SOVIET REFERENDUM

parliament, has been forced to take sides to survive. Moldavia, or Moldova as the parliament has renamed it, stands to lose "absolutely nothing" if it refuses to sign the new Union Treaty proposed by Mr Gorbachev, Mr Snegur told

a weekend meeting of deputies and enterprise managers.

He called instead for the creation of a confederation of sovereign states, with loose ties to the centre, and a free right of secession.

Mr Snegur is under huge pressures on both sides. On the one hand, the Romanian-speaking majority in the republic support the radical Moldovan National Front, which wants outright independence. On the other hand, he faces a militant Russian and Ukrainian-speaking population on the left bank of the Dniestr river, prepared to take up arms to stay under the protection of the union.

The work collectives of Tiraspol, the second largest city of Moldavia, are planning to organise their own poll. Last week they denounced the parliament for passing an "anti-people resolution" in deciding not to back the referendum.

The other rebel region splitting the republic is inhabited by the Turkic Gagauz people, equally bent on demonstrating their rejection of Moldavian independence.

Tass, the official Soviet news agency, yesterday reported that a "particularly active campaign to counteract the holding of the referendum" was being conducted by the Moldavian authorities.

All towns and districts of the republic were toured by 1,700 government emissaries, who put pressure on those who wanted to participate in the referendum, the agency claimed.

Ironically, the once-ruling Communist Party has been caught in the middle. On Monday, the Democratic Platform faction in the party issued a

statement declaring that all attempts to reform the party from within and turn it into a democratic party had failed.

On the eve of the referendum, the group announced their collective resignation, and dissociated themselves from the Moldavian Communist Party's campaign in support of Mr Gorbachev's poll.

At the same time, political depression and apathy affects Moldavia like the rest of the Soviet Union. Even where the poll is organised, it may not get the necessary 50 per cent turnout.

An opinion poll just published by the All-Union Public Opinion Survey Centre shows that almost half those questioned would not have supported the reform process in 1985, if they knew where the changes would lead.

Bonn set to write down Comecon's debt to east

By David Marsh in Bonn

THE GERMAN government is likely to accept large debt write-downs in forthcoming talks with the Soviet Union over repayments of billions of D-Marks of transferable rubles owed to Bonn under now abandoned East bloc trading arrangements.

As part of German reunification, Bonn has taken over East Berlin's former claims on members of the Comecon trading bloc built up in transferable ruble clearing accounts during past decades of East bloc trade.

Comecon ended use of the transferable ruble at the beginning of the year and went over to hard currency payments - one of the factors which has subsequently led to a collapse in intra-Comecon trade. Because of East Germany's previous persistent export surpluses within the East bloc, Bonn has inherited large credit positions with Comecon countries which will never be fully repaid.

Bonn calculates that the Soviet Union and other countries in eastern Europe owe Germany 10bn transferable rubles as a result of the Comecon arrangements, or about DM23.4bn (\$8bn) on the official conversion rate used by Bonn. The largest amounts owing are from the Soviet Union (6.4bn transferable rubles), followed by Poland (\$600m).

Economics Ministry officials say that Bonn will try to work out details of a repayment schedule in convertible currencies. They acknowledge that no Comecon country is likely to repay Bonn at DM2.34 per transferable ruble, which the former East bloc countries regard as far too high a rate.

The likelihood of large write-downs on this intra-Comecon debt adds to the problems of working out rescheduling for Germany's overall credits to the Soviet Union and east Europe. According to the Bundesbank, German banks' gross claims on Moscow doubled to DM19.3bn at the end of 1990 from DM9.7bn at end-June last year, as the result of heavy Soviet borrowing in the second half of last year.



A man walks past rows of new Trabant cars which have been stored in a field in the Czechoslovak town of Kralove for nearly a year. Although the prices of the east German-manufactured 'Trabys' have been drastically reduced, there have been very few buyers.

Christian Democrats to welcome Tory MEPs

By David Gardner in Brussels

EUROPEAN Christian Democrat (CD) leaders are likely to decide next month on the form of an alliance with the British Conservative members of the European Parliament.

This follows the call by Mr John Major, the British prime minister, in Bonn on Monday for closer co-operation with the Christian Democrats in Strasbourg.

The 32 Tory MEPs - along with Danes - sit separately from the 122-strong CD European People's Party (EPP). The parliament is dominated by the 180-member Socialist bloc, and has a Socialist president, Mr Enrique Barón de Spain.

Heads of Government from

those member states governed by Christian Democrat administrations or coalitions are expected to meet in Brussels on April 13. It is expected they will suggest a form of associate membership for the Euro-Tories. More than better co-ordination within the relatively powerless parliament is at stake.

The British Conservatives would have access to a powerful caucus within the Community, where six member states - Germany, Italy, the Netherlands, Belgium, Luxembourg and Denmark - are wholly or partly governed by Christian Democrats.

The prospect of the strengthened coalition was greeted

with caution by CD MEPs yesterday, while most Tories were ebullient at the prospect of ending their isolation.

But Mr Jean-Pierre Cot, French leader of the Socialist side of the House, warned of political problems if the balance of the parliament shifted rightwards. Mr Glyn Ford, leader of the UK Labour party's contingent, which makes up close to a third of Socialist number, said the move amounted to "a clobbering together of two very divergent groups".

Following Mr Baron's election to the presidency it was understood that the Christian Democrats would have a clear run when his term of office

expires at the end of this year. Mr Ford denied there had been any such deal but "if there was, it's not going to operate now".

Negotiations on revision to the Treaty of Rome going on in Brussels are likely to invest Strasbourg, the poor relative of EC institutions with greater powers. This has already caused ructions within the parliament. In December, former French president Valéry Giscard d'Estaing, believed to be seeking the presidency of the parliament, was nearly expelled by the 49-strong liberal group he heads for trying to forge links with both the Christian Democrats and the Tories.

Proposal to retain special coal and steel rules

By David Buchan in Brussels

THE European Commission will today propose keeping the special rules governing coal and steel for another 10 years to help these sectors complete their restructuring and to solve particular problems in east Germany.

Sir Leon Brittan, the competition commissioner, coming from a state - the UK - whose

coal and steel industries have been radically transformed over the past decade, had last year suggested that the EC take advantage of the current revision of the EC treaties.

This would enable them to scrap the European Coal and Steel Community (ECSC) now, instead of the year 2002 when the ECSC treaty is due to end.

He argued that coal and steel no longer had any need of the special treatment provided under the ECSC, such as the restructuring aid, and permission to operate production cartels in the event of a recession which the EC steel industry received in 1980-83.

However, with the support of virtually all EC steel compa-

nies except British Steel, most of Sir Leon's fellow commissioners felt in general that the Community should be adding to, rather than subtracting from, its treaties and, in particular, that east Germany needed ECSC help to phase out its dirty brown coal production and modernise its steel mills.

The agreement among the three coalition parties gives preferential treatment to investors until the end of 1992, but respects the rights of original property owners, as guaranteed by the German constitution and a treaty unifying Germany.

"We had to reach a compromise between protecting property and the wish for economic recovery," economics minister Mr Jürgen Moellenmann said.

The agreement overcomes a big obstacle to the economic recovery of eastern Germany. A tangled web of property claims from more than a million Germans has deterred western businessmen from investing in eastern Germany.

In the majority of cases where investments are not involved, the property will be returned to original owners," Mr Moellenmann said.

"But in cases where investment is preferable, there will be an absolute priority for investors."

Uncertainty about who owns land has also prevented new companies from using property as security for loans which they desperately need to get on their feet.

The agreement is part of a package of proposals aimed at helping east Germany back on track. The Bundestag, the lower house of parliament, is expected to approve the bills on Friday.

The accord by the three coalition parties - the Christian Democratic Union, the Christian Social Union, and the Free Democratic party - had been expected after FDP leaders approved it on Monday.

Last week public disagreement between Mr Moellenmann and the justice minister, Mr Klaus Kinkel on how to tackle the sensitive issue of property rights threatened to open a rift in Chancellor Helmut Kohl's centre-right coalition.

Asian and US crime rings are flooding Germany with fake and stolen credit cards, running up bills for tens of millions of dollars, the national police agency said, according to Reuters reports.

Damages last year totalled DM54m (\$4m) nearly twice as much as in 1989, the Federal Criminal Police said, adding that Germany was becoming a favourite haunt for foreign credit card criminals.

Groups based in Hong Kong, Malaysia, Singapore, Thailand and the Philippines were producing high-quality fakes, which were then smuggled into Germany.

Collective farms join in anti-Prague protests

By Leslie Collitt in Prague

THE Czechoslovak authorities yesterday faced mounting opposition to its reforms after 15,000 collective farm workers demonstrated in Prague to protest against the break-up of the large agricultural collectives.

The farmers are the latest social group to join a powerful array of forces aiming to undermine the government's ambitious reform programme. Mr Vladimír Dlouhý, the economics minister, said the collective farms were inefficient and unwieldy but acknowledged that they were still the nation's sole source of food.

"What to do with them is a hot political issue," Mr Dlouhý admitted. He said he preferred using economic pressure on the collectives. But he added that he did not want to be responsible for "endangering their existence," he said in an interview before addressing the farmers.

One solution for the government is to retain the co-operatives under a pending land restitution and to allow previous owners, in so far as they existed, to join the co-operatives.

The demonstrations coincide with grim news about Czechoslovak industry, whose productivity, deemed "technically bankrupt," owe Koruna 80bn (\$2.5bn) to its suppliers.

"This cannot go on much longer," Mr Miroslav Zemančík, a senior adviser to the Finance Ministry, said yesterday.

Mr Václav Klaus, the finance minister, who is the leading crusader for neo-liberalism, is surrounded by the economic debris of the Communist past. Despite its commitment to reform, the government recently belied out large state companies.

Following the switch to hard currency between the Soviet Union and its trading partners in eastern Europe, these Czechoslovak companies found themselves on the losing side.

Germany approves sale plan

GERMANY'S ruling coalition yesterday agreed that property confiscated by communists led by the former east German leader should be sold to investors against the wishes of the original owners if this was necessary to create jobs, Reuters reports from Bonn.

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Warning on EC's takeovers directive

THE European Commission's draft directive on takeovers risks creating a quagmire of corporate litigation if adopted in its current form, according to Sir Nicholas Goodison, chairman of the TSB group, David Gardner writes from Strasbourg.

The draft - the amended proposal for a 13th Company Law Directive on Takeovers and other General Hds - sets down prescriptive minimum requirements for takeovers in Europe.

The current Luxembourg

presidency of the EC wants to get the measure through by June. Sir Nicholas, the former chairman of the Stock Exchange, argued for a framework of principles for national supervisory bodies to apply. He recommended the non-statutory style of regulation operated by the UK Takeover Panel.

Adopting a system based on statute would open takeover bids to national and European legal challenge, and would lead to the widespread use of tactical

litigation to ward off bids, as practised in the US.

The European Commission has given the go-ahead to a proposed merger between two Japanese banks with operations within the European Community. Andrew Hill writes from Brussels. The volume of business conducted by the two banks - Kyowa Bank and Saitama Bank - meant the deal came within the threshold for preliminary investigation under recent EC merger regulations.

Retailers and environment issue

By Philip Rawstone

EUROPE's food and drink industries would have to pay more attention in the next decade to consumers' concerns about the environment and personal health, Mr Michael Jackson, vice-chairman of Allied-Lyons, said at an FT conference in London yesterday.

"I believe that many of our growth opportunities, and a few threats, in the 1990s lie in the change in the nature of the consumer," he said.

Environmentalism was not a passing fad. "The consumer's attitude towards a product will be increasingly determined by its apparent, not necessarily actual, environmental credentials."

Retailers in the UK had already embraced the environmental cause. "There is opportunity too for the astute manufacturer, but there are costs if things are taken to extremes."

Increasing numbers of consumers during the 1990s would be "worrying themselves to

death" about their health. Mr Jackson said. The anti-alcohol lobby - allied to a "tendency to health hysteria" - would pose a major threat to the drinks industry. Consumers would be willing to pay substantial premiums, too, for brands which matched their desired lifestyle or responded to their desire for excellence.

But he added: "It will not be enough to attach the name of a chic international house to an overpriced product."

The importance of understanding the consumer was

emphasised by Mr Tom Knowlton, chairman and managing director of Kellogg in the UK.

"Consumer research is a vital tool in providing the insights required for product development," he said. Quality of customer service and support could be just as important as product quality.

Mr David Hearn, managing director, KP Foods, said that European consumers were gradually becoming more alike but strong regional differences still remained.

The challenge to food and drinks companies would be to balance pan-European strategies with local marketing tactics, he said.

Further consolidation in the European brewing industry was forecast by Mr John Wakely, a director of Lehman Brothers International. Distribution difficulties had retarded concentration until recently but national barriers were coming down, and imports and exports were increasing.

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TALKS UNDER WAY WITH BANKS

Pressure grows for Brazil deal with creditors

By Christina Lamb in Rio de Janeiro and Stephen Fidler in London

BRAZIL may be moving nearer to an agreement with its creditor banks over payment of arrears on its debt amid growing pressure both from President Fernando Collor and US agencies.

A further round of negotiations is under way in New York between Brazil and the advisory committee of creditor banks. Mr William Rhodes, senior international executive at Citibank, which heads the committee, said yesterday: "I'm hopeful that the time has arrived for a breakthrough on the arrangements and we may see that this week."

Brazil wants an agreement soon to allow it to regain access to credit from multilateral agencies which has been restricted because of its lack of progress in debt negotiations with the banks, to which it owes more than \$80m in overdue interest. Two loans to Brazil, totalling about \$700m, were scheduled on the agenda today of the board of the Inter-American Development Bank.

US banking regulators, meet-

ing under the auspices of the Interagency Country Exposure Review Committee (ICERC), are this week discussing raising the compulsory reserves required by US banks against their Brazilian loans from the current 20 per cent level. Some rise is expected, but there may still be time to influence the percentage increase if a breakthrough is agreed on arrears.

Brazil is said to have offered to pay 30 per cent of interest due in the current quarter, but has not made any commitment for future periods.

One of those most anxious for an agreement is President Collor who wants to bring forward a visit to the US for talks with President George Bush which is scheduled for June.

Although these issues may be resolved soon, agreement is still distant on a comprehensive accord on Brazil's medium-term debt.

US current account deficit shows further improvement

By Michael Prowse in Washington

THE US current account deficit - the broadest measure of the country's international trading position - shrank to \$99.3bn last year from \$110bn in 1989, the Commerce Department reported yesterday.

This was the third successive annual improvement following a record deficit of \$162.3bn in 1987 and the first deficit of less than \$100bn since 1984.

The improvement reflected a

fall in the merchandise trade deficit to \$108.7bn, compared with \$114.9bn in 1989, and an increase in the surplus on services to \$22.9bn from \$20.5bn.

The net balance on investment income also shifted to a surplus of \$7.5bn compared with a deficit of \$900m in 1989.

These positive changes were partially offset by an increase in US overseas grants, mainly associated with the Gulf war. Forgiveness of Egyptian debt and grants to Israel extended cash contributions from allies towards the cost of the war.

The figures also showed a



FDIC chairman Friedman

US banks warned on dividends

By Peter Riddell, US Editor, in Washington

SOME US banks are paying out too much in dividends rather than using retained earnings to raise their capital, Mr William S. Friedman, chairman of the Federal Deposit Insurance Corporation, warned yesterday.

He was speaking ahead of the publication later this week of a FDIC report on bank earnings which, he said, was "not encouraging".

Mr Friedman expressed confidence that current proposals to recapitalize the financially strained bank insurance fund by raising premiums and borrowing under existing legislation would be sufficient, provided an economic recovery started in the middle of the year.

FDIC has already agreed to increase the premium paid by banks from 19.5 to 23 cents per \$100 of insured deposits and put in place \$10bn of borrowing power, in addition to \$5bn already authorised from the Treasury.

However, he warned that if the recession continued well into 1992 the bank insurance fund would be insolvent by the end of that year by around \$6bn.

Consequently, the FDIC has proposed establishing a standby fund of \$15bn, which would have to be authorised by Congress, as well as requiring a further sharp rise in premiums.

Hollywood guards profits from TV networks

By Alan Friedman in New York

THE US Federal Communications Commission (FCC), the regulatory agency for broadcasting and media, appears poised tomorrow to uphold rules preventing television networks from sharing in \$80m of annual Hollywood profits from the syndication of former prime time shows.

The five-member FCC will deliver its ruling after months of Washington lobbying by representatives of the Hollywood producers who make the programmes. Hollywood favours upholding the rules, which bar the networks from buying an equity stake in the syndication rights.

The networks, which have seen a steady erosion in their audience share and profits

because of the rise of cable television and home video, argue that the 20-year-old FCC policy - known as the Financial Interest and Syndication (Fin-syn) Rule - is out of date and should be modified.

The fin-syn rule was originally adopted by the FCC in 1970 - when the networks still had a stronghold on prime time audiences - to ensure a fair sharing out of programme revenues. But the three major networks have since seen their prime time audience share drop from 85 per cent to 80 per cent.

The FCC is split on the fin-syn issue. Mr Alfred Sikes, the commission chairman, and another commissioner favour dereg-

ulating the rules to allow networks a piece of the pie. Under present rules the networks may only buy the rights to air the shows, but cannot share in the lucrative syndication market that is dominated by Hollywood producers.

Mr Andrew Barrett, another FCC commissioner, has put forward a proposal that would essentially favour Hollywood. It is a version of this proposal that is expected to win in tomorrow's debate and vote.

It is Mr Rupert Murdoch's 20th Century Fox that could suffer most if the fin-syn rules are upheld; Fox has an emerging television network, but also makes many shows.

Peru reduces tariffs and frees exchange dealing

By Sally Bowen in Lima

PERU'S moves to liberalise its economy have taken a big step forward with the announcement of significant tariff cuts and the lifting of all non-tariff curbs on the import of consumer goods.

Foreign exchange dealings have been freed, to favour exporters who have been suffering from an overvalued currency. The measures were unveiled on Monday night by Mr Carlos Bolona Behr, who succeeded Mr Juan Carlos Hurtado Miller almost a month ago as economy minister.

A modified two-tier tariff system with imports at either 15 or 25 per cent - the previous top rate was 50 per cent - will mean immediate cuts in prices. Many of these are higher than in the US, despite a minimum legal wage of around \$50 per month. Prices of basic products such as food and medicine would quickly fall, said Mr Bolona.

Imports where Peru has no comparative advantage will be subject to the 15 per cent tariff. An estimated four-fifths of all imports will now enter Peru at the lower rate, although

there will still be "reasonable" levels of protection for domestically produced consumer goods, the minister said. The higher tariff combined with freight costs will ensure protection for two-thirds of national industrial production.

Anti-dumping legislation is to be announced later this week. Mr Bolona calculated that only 3 per cent of domestic industry would be adversely affected. This would be more than compensated for by the parallel boost to Peru's export activity "which is much more labour intensive".

A tough new campaign against tax evaders was also announced. Special prisons were already being prepared for "tax criminals" and the authorities had started cross-checking tax returns against lists of property and vehicle purchases, he said.

Rationalisation of state bureaucracy could not be postponed any longer, he said. All ministries had been instructed to reduce expenditure by 10 per cent and state companies were to lose their "unjustifiable privileges".

Brazilian shops code is seen as recipe for chaos

By Christina Lamb in Rio de Janeiro

A NEW code designed to protect Brazilian consumers seems set instead to create shopping chaos.

Supermarkets throughout Brazil have stopped buying most stocks, complaining that neither they nor their producers have been given time to adjust labelling to comply with the new regulations.

The Consumer Defence Code issued on Friday requires shops to ensure that all merchandise is clearly labelled with ingredients, sell-by dates and production dates. Those caught selling produce without this information face heavy fines.

Mr William Eid, vice-president of the Association of Brazilian Supermarkets, warned that severe shortages are likely. He said supermarkets in São Paulo, Brazil's biggest city, and many other locations are refusing to receive 80 per cent of food and drink supplies from producers because they do not comply with the new code.

Brazil's largest supermarket group Pao d'Acucar has already suspended orders of many items. Mr Luiz Bresser

Pereira, the chain's Commercial Director, complained that as it receives Cr\$1bn (\$4.4m) of goods per day to comply with the new decree would be physically impossible.

● Brazilian oilworkers' unions, on strike for 15 days, rejected a pay offer from the state oil company Petroleo Brasileiro (Petrobras). Renter reports from Brasilia.

José Barbosa, a member of the national strike command, said the strike continued. Unions did not accept an offer of pay rises of four to 50 per cent made by the company on Monday. The unions are seeking an increase of 161 per cent.

The Higher Labour Court was due to sit yesterday continuing efforts to get a settlement, but the chances of agreement looked remote. Both sides have given very different figures on oilworkers' pay.

According to Petrobras, fuel stocks are running low and shortages of diesel could begin within days. Brazil consumes 1.1m barrels of oil per day and most refining has been disrupted.

Five escape as aircraft aborts take-off

A CARGO aircraft skidded off the edge of a runway at Kennedy International Airport while attempting to take off yesterday morning, officials said. AP reports from New York. The aircraft erupted in flames but the crew of five escaped injury.

The five people aboard Air Transport Flight 102 were safely removed from the DC-8 after the accident shortly after 9 a.m. (1400 GMT), said Mr Mark Marchese of the Port Authority.

"It appears the crew tried to abort (the takeoff) and it skidded," Mr Marchese said.

The five people aboard Air Transport Flight 102 were safely removed from the DC-8 after the accident shortly after 9 a.m. (1400 GMT), said Port Authority spokesman Mark Marchese.

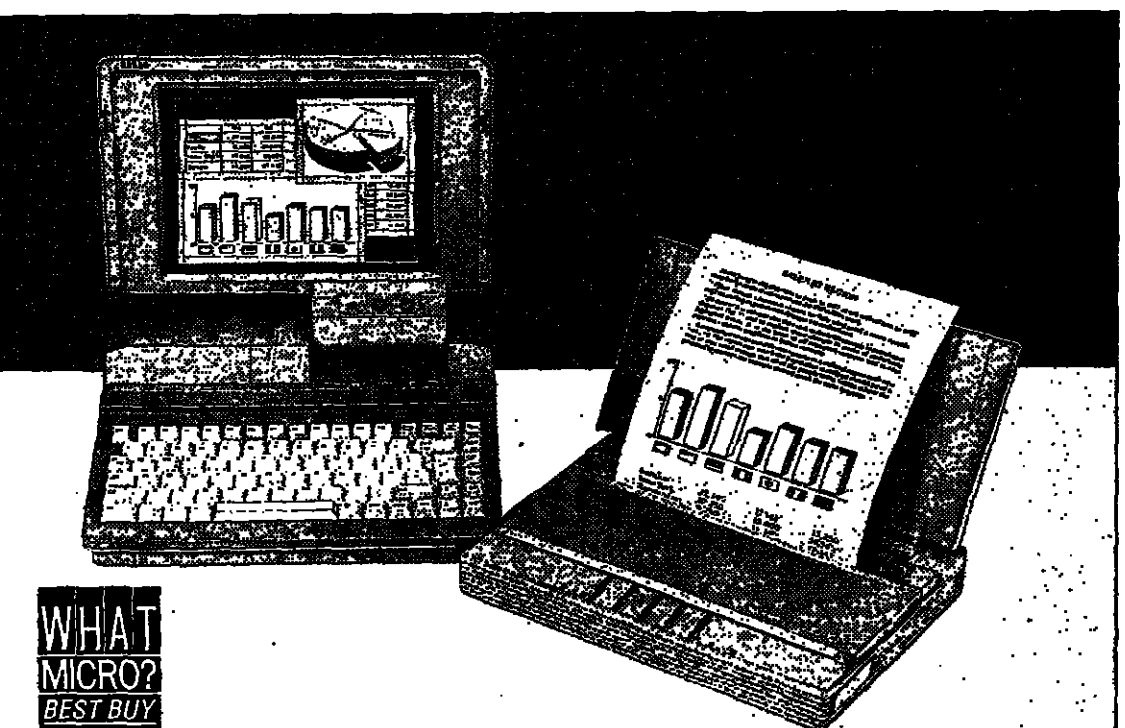
The crew aborted its takeoff midway down the runway, Mr Marchese said. "The plane was smoking... It came to a stop and burst into flames."

It was not immediately known why the takeoff was halted. The aircraft was heading for Brussels when the incident occurred. Firefighters pumped foam on to the burning aircraft as the airport was closed, said another spokesman, Bill Cahill.

The aircraft's wheels and landing gear snapped off while the plane skidded to a stop about 200 feet (60 meters) away, another official said. A 5-foot (1.5-meter) section of a wing also snapped.

Port Authority personnel at the scene said the five people on board declined treatment. The plane was not carrying any hazardous materials, a Federal Aviation Administration official said.

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Price figures signal stubborn core inflation

By Rachel Johnson, Economics Staff

BRITAIN'S manufacturers are not containing rising costs but passing on higher prices at the factory gate, official figures showed yesterday.

The Central Statistical Office announced that the output price index rose by a monthly 0.5 per cent in February and by an annual rate of 6.3 per cent.

As prices also rose by 6.3 per cent in January - after 5.9 per cent in December - this run of figures suggests core inflation remains stubbornly high in spite of the recession.

It is the second month running that output prices have defied stagnating demand conditions to rise by substantially more than expected.

January's 1.2 per cent monthly increase was the biggest for 10 years and February's rise was at least 0.2 per cent higher than the market forecast.

However, the markets have learnt that poor wholesale price data do not necessarily

Dealers say UK institutions selling to Europe and Japan in electricity privatisation

Big profits made in power sell-off

By Clare Pearson and David Thomas

BIG profits were being made yesterday as millions of shares in the two electricity generating companies changed hands on the first day of stock market trading.

The shares surprised dealers by leaping to unexpectedly high premiums after particularly heavy trading prompted speculation of stake-building in National Power, the larger of the two generators.

National Power's shares closed at 137.5p and PowerGen at 137p, compared with the 100p partly-paid issue price. The shares had been expected to trade in a range of 120p to 130p.

Mr John Wakeham, energy secretary, welcomed the £2.2bn sale of 60 per cent of the shares in both companies as a "text-book exercise."

Mr Wakeham, who is widely credited with having rescued the electricity privatisation from the brink of failure, has announced that he would be standing down as a member of

parliament at the forthcoming election.

By contrast, Mr Frank Dobson, Labour's energy spokesman, claimed that the taxpayer had lost £350m in proceeds because the issue had been underpriced.

The shares traded initially at around 122p when dealings started at 2.30pm. But prices took off after very large deals were transacted in National Power.

The rise was triggered when over 25m shares in the company were traded at 119p in three separate parcels just after 3pm.

Total volume was much heavier than expected at 331m shares, suggesting that about 15 per cent of the equity available in both companies had changed hands.

Dealers said UK institutions were selling stock to mainly Continental European and Japanese buyers.

The market rebounded with rumours of stake-building in

National Power, although many analysts said the barriers to takeover built into the privatisation made large stake-building unlikely.

International groups involved in electricity generation or power equipment manufacturing were most frequently mentioned as potential stake builders.

These included Electricite de France and Framatome, two French groups, the General Electric Company of the UK, and Asea Brown Boveri, the Swedish-Swiss conglomerate.

EdF and Framatome were reported as denying the rumours. GEC refused to comment, but observers dismissed its involvement in stake-building as highly improbable.

Yesterday's closing premiums could cause renewed enthusiasm for the government. Ministers had been anxious to avoid a repetition of the row after the sale of the 12 regional electricity companies, which opened at a 50% pre-

mium last December.

However, advisers working on the privatisation of Scottish Power and Scottish Hydro Electric, the two Scottish electricity companies due to be sold in June, are interpreting the sale of the English generators as models to be followed.

The Scottish privatisation seems set to repeat the unusual features introduced by the government into the sale of National Power and PowerGen. In an attempt to boost proceeds, the government asked institutions to bid to underwrite the shares.

The focus will now increasingly shift to the Scottish privatisations, which are expected to raise £1.5bn-£2bn if 100 per cent of the equity is sold.

The two Scottish companies will be marketed throughout the UK and to overseas investors, although the biggest incentives to invest will be offered to the companies' customers in Scotland. *Lex, Page 16*

Major signals subtle break with the past over Europe

Philip Stephens senses disquiet over Tories' change of tack

THE pressure on Mr John Major in recent days has been to demonstrate leadership. On one of the issues at the heart of Mrs Margaret Thatcher's downfall he has now done so.

The judgment of most of his colleagues at Westminster yesterday was that he had made the break with his predecessor's policy on Europe decisively but with skill.

Mr Major's promise in Bonn that Britain would be at the heart of Europe's future stirred some disgruntled voices, notably that of Mr Nicholas Ridley, the former trade and industry secretary.

Mr Ridley, never one of his most fervent admirers, said the prime minister was giving the impression that "he would agree to everything."

"Everything" in this context means the single European currency and the federalist political union sought by the more ambitious of Britain's European partners. The same disquiet was voiced privately by some Tory MPs who still see Mrs Thatcher's Bruges speech as the touchstone against which all other pronouncements should be judged.

The structure of Mr Major's speech, however, left them with insufficient ammunition to launch a public attack. The break with the past was explicit in terms of the language, but the prime minister offered no hostages to fortune on the substance of policy.

It was significant that while he made no mention of the primacy of national sovereignty in the debate on Europe's future, he did not go far as to disavow it. Anti-federalists such as Mr Teddy Taylor, a backbench Tory MP, were left to claim that Mr Major had "conceded absolutely nothing."

But on the other side of the argument the Euro-enthusiasts share Mr Major's judgment that he is now well on the way to neutralising Europe as an issue within his party in the run-up to the general election.

They believe - as Sir Geoffrey Howe, the former deputy prime minister whose resignation sparked the Tory leadership contest, commented yesterday - that the change in style will merge gradually in substantive shifts in policy.



John Major and Helmut Kohl

but at a slow enough pace to deny Mr Ridley the opportunity to provoke a confrontation.

It is an assessment that may prove over-optimistic. But for the moment Mr Major can claim that both domestic and European politics are on his side.

At Westminster, the view among ministers is that aside from a handful of die-hard anti-Europeans, most Tory MPs have neither the energy nor the inclination for another civil war over Europe. The approach of the general election reinforces that predilection.

In Europe, Mr Major is confident that the argument over the pace of integration is going firmly his way. After his talks with Chancellor Helmut Kohl, one of the prime minister's closest aides claimed that Germany had all but abandoned a fixed timetable for economic and monetary union.

Support for the Delors blueprint in several other capitals was also crumbling fast.

The aide was similarly upbeat about Bonn's approach to closer co-ordination of foreign and defence policies.

Chancellor Kohl, like Mr Major, saw an enhanced role for the Western European Union as an essential bridge between the Community and Nato.

Mr Major has on this occasion neatly finessed potential opponents within his own party, but not everyone at Westminster is convinced that he can continue indefinitely to pull off the same trick.

Mrs Thatcher's acid remarks in the US about the dangers of German domination of a European "superstate" were much more than a chance judgment.

The former prime minister is said by close associates to be ready to suspend judgment on whether her chosen successor is squandering her legacy in domestic policy.

But if she judges that Mr Major's ebullient tone on European integration threatens a further transfer of sovereignty from Westminster to Brussels, she might well break publicly with him. She could take scores of Tory MPs with her re-opening the wounds that provoked her downfall.

Mr Major has demonstrated that he is perfectly capable of climbing onto the high-wire. Now he has to stay on it.

Ministers may quit if tax scrapped

By Ivo Dawney, Political Correspondent

MR John Major, the prime minister, yesterday came under intense pressure to announce the outcome of his poll tax review well before Easter as Labour redoubled its charges of "disarray and dithering" within the government's ranks.

Forced on to the defensive during MPs' questions he promised only that "good progress" had been made and an announcement would be made soon.

As a sense of urgency grew notably in Westminster yesterday, Mr Major met Mr Michael Heseltine, the environment secretary, to prepare the government's position for today's debate on the community charge.

The government has promised a review of the controversial poll tax, a local tax funding public services.

The cabinet poll tax review committee is due to meet tomorrow prior to a full cabinet meeting, amid speculation that some junior ministers might resign if the poll tax is scrapped outright.

Last night, Mr Derek Con-



Blunkett: on attack

way, MP for Shrewsbury and a parliamentary private secretary at the Welsh Office, said he would resign if a property based tax was reintroduced.

The poll tax replaced a rating system based on assessed property value.

Tory MPs also reported that Mr Christopher Chope, the roads minister and former leader of Wandsworth Council, and Mr Michael Forsyth, the

Scottish minister, have also let it be known that they would consider resignation if the poll tax goes.

In a series of exchanges during question time, Mr Neil Kinnock, the Labour opposition leader, repeatedly challenged his opponent to reveal what the government planned to do.

"Why don't you do the sensible thing: abolish the poll tax completely, which is what the whole of Britain wants," he said.

However, the proposal served only to reveal the divisions within Tory ranks when several Conservative backbenchers shouted "no" at the abolition plan.

In his counter attack, Mr Major claimed that Labour had failed to calculate what its "fair rates" alternative policy would cost homeowners, particularly in the Midlands and South of England. And he went on to add that Mr Kinnock would find out "soon enough" what the government planned.

But the prime minister's replies did little to comfort some Tory MPs now growing

increasingly anxious for a decision to rebut Labour's accusations that the Cabinet is unable to reach agreement.

Capitalising on the government's discomfiture, Labour's local government spokesman, Bryan Gould and David Blunkett, stepped up their attack by publishing a 15-page "Dossier of Disarray and Dithering."

It contained quotations from ministers and Conservative pamphlets in support of the tax and criticising Labour's calls for its abolition.

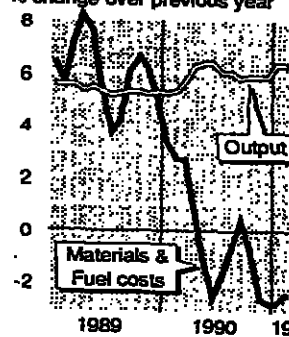
Later last night, Mr Kinnock published an open letter to the prime minister offering co-operation if the government immediately tabled legislation to abolish the tax.

"If you reject this proposal then you and your government will, of course, be quite needlessly prolonging the cost and injustice of the poll tax," the letter concluded.

MORE THAN 7.5m summonses for payment of poll tax have still to be processed, and courts will need a "significant injection of resources" to cut the backlog.

UK producer prices

% change over previous year



delay cuts in interest rates.

The Treasury admitted the figures were "disappointing" but said it was optimistic that inflationary pressures at the factory gate would not feed through "into prices at the retail end." It hinted it would publish a rosier inflation forecast in the annual Budget statement due next week.

Officials pointed out that the figures conflicted with the majority of economic indicators and especially with a recent survey by the UK employers' association which showed that firms expected price increases to be the lowest in 15 years over the next four months.

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UK NEWS

AVIATION POLICY

US eases stand on European mergers

By Peter Riddell, US Editor in Washington

THE US administration will no longer object if a UK airline such as British Airways buys a 49 per cent interest in a European carrier in order to win rights to fly direct from the Continent to the US.

Until now the US would have objected to this kind of deal, arguing that such an acquisition was just another way to gain rights to fly direct to the US which should be negotiated between the relevant governments.

US officials acknowledged the change of practice as a consequence of the bilateral airline access agreement reached in Monday.

One part involves allowing British carriers the right to fly from six European countries - Belgium, France, Germany, Ireland, Luxembourg and the Netherlands - direct to the

US. Mr Samuel Skinner, the US Transportation Secretary, said that under the "unserved cities" doctrine a British carrier would be allowed to fly from Seattle to Sydney, Australia, though not from Los Angeles, as the British side had sought.

This is part of the substantial extension of cities in Latin America and Asia which British carriers will be able to serve from flights stopping in the US.

Mr Skinner said he hoped to reach a decision within a week on the proposed takeover of TWA's routes to Heathrow by American Airlines. The decision will also require Justice Department approval, though his comments indicated that the go ahead would be given.

Meanwhile, British lawyers acting for 400 London-based

employees of Pan Am - the US carrier which has sold its Heathrow London rights to United - yesterday issued a writ in an attempt to make United Airlines offer them employment on the same pay and conditions as they currently enjoy.

Hedleys, a solicitor, says United, which this week won permission to use the Pan Am routes, has offered only 300 of them jobs, all on terms less favourable than they enjoyed under Pan Am.

They will argue in the High Court on Friday that, under transfer of undertakings regulations approved by the UK parliament in 1981, all 400 have a right to jobs similar to those they presently occupy.

The regulations stipulate that when one business is bought by another it must take

on its employees on the same terms and conditions.

Profits of BAA, Britain's leading airport operator, will be hit by the UK recession and the steep decline in air travel, Sir Norman Payne, its chairman, warned yesterday.

Sir Norman said BAA had expected a small increase in profits in its latest financial year ending this month, but it had suffered revenue losses of between up to £2.5m a week during the last two months.

Hopes of a deal to save Air Europe seemed to be fading ahead of today's deadline for administrators to sell the company. If no buyer is found for the airline, part of the collapsed International Leisure Group, the Civil Aviation Authority will rescind the carriers licence.

BRITAIN IN BRIEF



UK-French venture wins power deal

The European Gas Turbine Company (EGT), a subsidiary of GEC-Alsthom, the Anglo-French power engineering joint venture, has been awarded a £90m contract to build a gas-fired combined cycle power station at Brigg, northern England.

The Brigg order is the third gas turbine power station contract won this year by EGT, which is a joint venture between General Electric of the US and GEC-Alsthom. EGT won its first gas turbine contracts in January for power stations to be built at Corby and Peterborough, both in central England.

Party sets out transport plan

Road pricing and an increase in the cost of petrol were at the heart of radical proposals to reduce congestion on Britain's roads set out by the centrist Liberal Democrats in a new transport policy document.

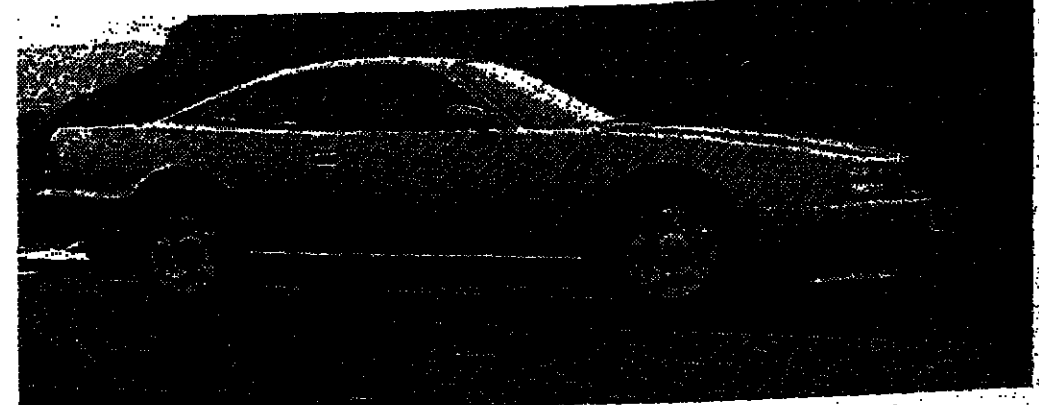
The aim of the party's proposals is to reduce the need for private transport. Other proposals include construction of a high speed rail link from the Channel Tunnel.

Pay deals urged

The government should back a system of co-ordinated national wage bargaining by setting up a statutory Pay Advisory Commission to monitor pay negotiations, according to the Institute for Public Policy Research group.

A IPPR paper backs pay bargaining to counter a big rise in unemployment after Britain's entry to the European Monetary System.

Aston Martin cuts workforce by 16%



Product to be preserved: the Virage (above) will be made by fewer workers. Aston Martin, the UK luxury sports car maker, is cutting its workforce by 16 per cent from 535 to 450 and is reducing its planned output for 1991 by a quarter in the face of recessionary pressures in the US and the UK, its two most important markets.

The company, which is 75 per cent owned by Ford of the US, is understood to have made a loss last year of more than £1m on a turnover of around £27m. Mr Victor Gauntlett, Aston Martin chairman, said losses were expected to be higher this year. "We still want to preserve our product programme," he said.

Overseas aid for Ulster

The International Fund for Ireland, set up four years ago to promote reconciliation between Protestants and Roman Catholics in Northern Ireland, has announced allocations of £43m to meet project needs this year.

The largest allocation of £13m will be devoted to a special disadvantaged areas initiative which is aimed at stimulating enterprise and providing jobs in areas of greatest social need.

The International Fund was set up after the Anglo-Irish agreement was signed with the United States, Canada and New Zealand. The European Community has also supported the fund.

More job cuts at naval yard

Babcock Thorn, the consortium operating the Rosyth naval dockyard in Fife, Scotland, are to shed an unspecified number of jobs because of the reduction in the government's warship refitting programme caused by last year's policy document Options for Change.

Mr Allan Smith, managing director, said the number of jobs that would be lost was in the hundreds, but refused to be specific because there remained possibilities of obtaining further shipping contracts.

Tax warning on education reform

Transferring education from local to central government control would add up to £p in the basic rate of income tax, the Association of Metropolitan Authorities said.

The switch of schools from control by local education authorities to grant-maintained status under the supervision of the Department of Education and Sciences would require additional central funding to compensate.

"Nationalising education may appear superficially attractive but it is misguided," said Councillor Stephen Byers, chairman of the labour-dominated AMA education committee. "It will undermine local management of schools and increase costs."

Share deal for Scots workers

Employees of Scottish Power and Scottish Hydro-Electric, the electricity companies, are to be offered £140 worth of free shares when the two companies are privatised in June.

In the first disclosure of details of the flotation of the two companies, Mr Ian Lang, the Scottish Secretary, spelled out a range of concessions for employees and pensioners of the two companies.

Scottish Power, which operates in the south of the country, employs about 8,700 people and Scottish Hydro-Electric, operating in the north, about 3,600.

BBC criticised on advertising

The BBC was accused of "blatant distortion of competition" by promoting its magazines on its channels.

The accusation was made by Mr John Sadler as his report into cross media promotion was published. The "trials" for BBC magazines such as the Radio Times amounted to free advertising and were examples of distorted competition, he said.

"I don't think the BBC's position as a public service broadcaster is justification for what I regard as distortion of competition," said Mr Sadler, a former Monopolies and Mergers Commissioner.

Gatwick enters turbulent air space

The future of London's second airport is uncertain, writes Paul Betts

THE collapse of Mr Harry Goodman's Air Europe could not have come at a worse time for Gatwick, London's second airport.

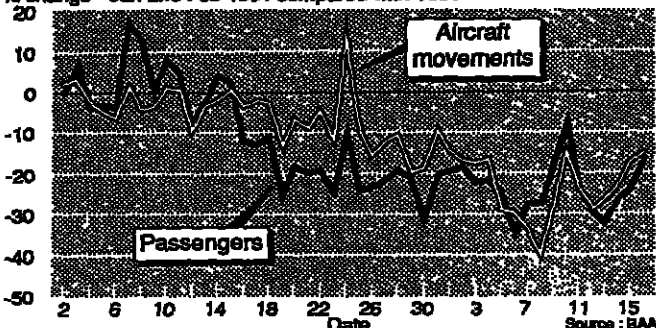
Gatwick, like the rest of the aviation industry, was already coming under pressure from the combined effects of the UK recession and the slump in air travel caused by the Gulf war. The demise of Air Europe has now deprived the airport of its second biggest airline customer after Dan-Air, the other second-tier UK carrier.

The government's recent decision to scrap most of the London air traffic distribution rules and the new bilateral air service pact agreed with the US this week have created additional uncertainties over Gatwick's future as London's second international scheduled airport and the dominant UK charter airport.

Yet of all the immediate difficulties facing Gatwick, the collapse of Air Europe and its parent International Leisure Group causes greatest concern. Sir Norman Payne, the chairman of BAA, formerly the British Airports Authority, which owns the airport, said: "We are particularly worried

How traffic at Gatwick has fallen

% change - Jan and Feb 1991 compared with 1990



about its effect on the inclusive tour business, because it will cause people to think twice before putting down money for a holiday in advance."

Air Europe accounted for nearly 3m passengers using Gatwick last year, 14.5 per cent of Gatwick's passenger traffic compared with 16.8 per cent for Dan-Air. The collapsed carrier also accounted for the biggest single proportion of air traffic movements at Gatwick, with 19.7 per cent of all take-offs and landings last year.

Air Europe's charter business is expected to be distributed among other charter carriers. "Some will go to Dan-Air and stay at Gatwick, a small amount will go to Luton, some to Stansted and some to Heathrow," Sir Norman predicted.

Air Europe's busy Gatwick to Brussels scheduled service was operated for the first time since the grounding of the Air Europe fleet last Friday by Dan-Air yesterday. Dan-Air was quick to move in last week, applying to the Civil Aviation Authority for licences to operate 10 of Air Europe's

international routes. The CAA has granted it a four-week licence to operate the Brussels service.

Apart from Dan-Air, the CAA expects other carriers like BA or British Midland Airways to consider applying for some of the Air Europe routes.

Gatwick has more scheduled traffic than charter. "It's about 52 per cent scheduled," Sir Norman said. "This percentage may wobble a bit but in two to three years time, we should see more scheduled than charter again at Gatwick."

Concern has increased over Gatwick's future as an international scheduled airline airport because of the scrapping of rules restricting access to new airlines into Heathrow airport. There is expected to be strong demand for Heathrow rights from international airlines which had been forced to operate out of Gatwick under the old rules.

Sir Norman believed that the amount of traffic which would now switch from Gatwick to Heathrow would not be as significant as many reports have suggested. "This issue has been overblown in the press," he said.

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FT LAW REPORTS

NATIONAL IRANIAN TANKER AGAINST JAGUAR LIBERIAN TRANSPORTS

Time-charterers can extend ship's re-delivery period

WORLD RENOWN
Queen's Bench Division (Commercial Court): Mr Justice Hobhouse: March 7 1991

TIME-CHARTERERS are entitled to order the chartered vessel on a final voyage which will exceed the charter period, permits them to continue to hire the vessel for such extended time as will enable her to complete the round voyage on which she is engaged when the charter period expires and to return to port of re-delivery.

Mr Justice Hobhouse so held when giving judgment for National Iranian Tanker Co, defendant charterers of the World Renown, on a claim by the plaintiff shipowners Jaguar Transports Inc, for damages for late re-delivery of the vessel.

In a second dispute, Mr Justice Hobhouse gave judgment for National Iranian Tanker Co as defendant charterers of World Symphony and World Renown, on claims by the plaintiff shipowners, Chiswell Shipping Ltd and Liberian Jaguar Transports Inc respectively, for damages for loss of interest on sums paid late under the charterparties.

HIS LORDSHIP said in the first

dispute the charter, which was for "six months 15 days more or less in charterers' option". The charterers exercised their option for a 15-day extension. The latest date for re-delivery was December 24 1988.

Clause 18 provided that notwithstanding clause 3, "should the vessel be upon a voyage at the expiry of the period of this charter, charterers shall have the use of the vessel at the same rate and conditions for such extended time as may be necessary for completion of the round voyage on which she is engaged and her return to a port of re-delivery".

On October 4 1989 the vessel was en route on a laden voyage from Sirri to Rotterdam. Charterers instructed the Master, after completing discharge at Rotterdam, to return to Sirri and load further cargo for carriage to Rotterdam.

On December 24 the vessel was on a voyage from Europe to the re-delivery range, being the ballast leg of her final round voyage. She did not arrive back in the re-delivery area until January 18 1990.

The shipowners said the charterers had wrongly ordered the vessel to perform the final voyage, and claimed damages for late re-delivery.

The principal authorities relevant to the obligations of charterers to redeliver vessels

under timecharters had been comprehensively reviewed by the Court of Appeal in *Hyundai Merchant Marine v Chiswell Shipping* [1991] 1 Lloyd's Rep 100. In the absence of clause 18 it would be clear beyond argument that charterers had breached two obligations.

First, they had ordered the vessel on an "illegitimate" last voyage, that was to say, a voyage which could not reasonably have been expected to be completed within a time which would enable the vessel to be redelivered before expiry of the charter period. Second, charterers had broken their obligation to redeliver within the charter period.

Mr Eder for the shipowners submitted that clause 18 must be construed recognising the existence of both those obligations. Accordingly, any liberty to complete a final voyage at the charterparty rate presupposed that that voyage was not an "illegitimate" final voyage. He said "voyage" in clause 18 meant a "legitimate" voyage.

The *Hyundai* charterparty was on the NYPE form. It provided a time for re-delivery "minimum 10 months, maximum 12 months timecharter, exact duration in charterers' option". The charter also provided that hire was to continue until re-delivery. Charterers argued that that wording gave them the right to order the ves-

sel upon a last voyage which would exceed the 12 months maximum. The argument was rejected. Lord Justice Bingham said "the nature of a timecharter is that the charter is for a finite period of time".

A similar decision was reached by Mr Justice Steyn in *Black Falcon* [1991] 1 Lloyd's Rep 77 on a NYPE charter.

Mr Gee for the charterers submitted that *Hyundai* and *Black Falcon* were distinguishable because the present charter included an express provision extending the charter period. He further submitted that it had already been held in other cases that was the effect of clause 18 and the court should follow those earlier decisions, not the recent decisions which were concerned with another wording.

The wording in clause 18 was in current use at the beginning of this century. In 1900, two cases were decided by Mr Justice Matthew and Mr Justice Bigham respectively, *Bucknall v Murray* 5 Com Cas 312 and *Dene Steam Shipping v Bucknall* 5 Com Cas 372. Each concerned a timecharter for "about six calendar months". Clause 23 provided for extension in effectively the same wording as was used in clause 18 in the present charter.

In *Dene* the six months expired on November 12. On

October 24 the vessel completed a voyage discharging at Barcelona. The day before charterers ordered the vessel to perform a voyage from Potti in the Black Sea to Baltimore or Philadelphia. Owners objected saying that would extend the voyage to about eight months instead of six. They did not reject the order but claimed damages.

Mr Justice Bingham said the charterers, in entering into the charterparty for the voyage from Barcelona, were acting within the liberty given by the charterparty and by the express terms of the contract, were entitled to complete the voyage on paying hire in accordance with the terms of the charterparty.

He said "it was contemplated by the parties when they entered into this charterparty that hire would not only be for about six months, but might be for such an extended period as might be necessary for completion of a voyage... upon which the steamer might be engaged when the six months expired".

The *Murray* judgment was to like effect. In *Murray* the statement of opinion was dicta; in *Dene* it was the *ratio decidendi*. The judges construed the relevant clause as converting what would otherwise be a simple period charter into a charter on timecharter terms for the calendar period plus

such further period as was necessary to complete the voyage on which the vessel was engaged when the calendar period expired.

It was thus a charter which did not fit neatly into one of the classic categories, but contained hybrid elements.

There was no subsequent authority which cast any doubt on the correctness of the *Murray* and *Dene* decisions.

Accordingly, despite *Hyundai* and *Black Falcon*, the court should follow *Dene*. The case was indistinguishable from *Dene*, and the charterparty wording was distinguishable from the wording in *Hyundai* and *Black Falcon*.

The charterers' order to proceed on the final round voyage was an order they were entitled to give under clause 18. They were not in breach of charterparty. The owner's claim under this head accordingly failed.

The second dispute arose under all three charterparties. The charterers were liable to pay sums to the shipowners. They paid late. The shipowners said they had suffered loss in the form of lost interest. They claimed damages from the charterers at Common Law.

They accepted that they could not recover under statute; the debts were discharged before the action was started. Mr Eder submitted they could

be recovered as special damages.

It would be a fiction to say that the loss of benefit claimed by the shipowners was anything other than an ordinary loss such as would be suffered by any business entity. The shipowners had not put forward facts which showed a specific loss. They merely showed ordinary *prima facie* loss of benefit that flowed from not having free cash. They made no allegation of special knowledge on the part of the charterers at the time of making the relevant contracts.

The case was not like *Wadsworth v Lydall* [1981] 1 WLR 598 where the plaintiff was left financially embarrassed by the defendants' breach in circumstances where the defendant knew or ought to have known that the plaintiff would be likely to suffer special losses, including incurring the extra cost of having to borrow money and having to pay interest on such borrowing.

The shipowners' claims under this head accordingly failed.

For the shipowners: Mr Bernard Eder QC (Aisop Wilkinson).

For the Charterers: Mr Steven Gee (Loell White Durrant).

Rachel Davies
Barrister

EUROPEAN OFFSHORE CENTRES

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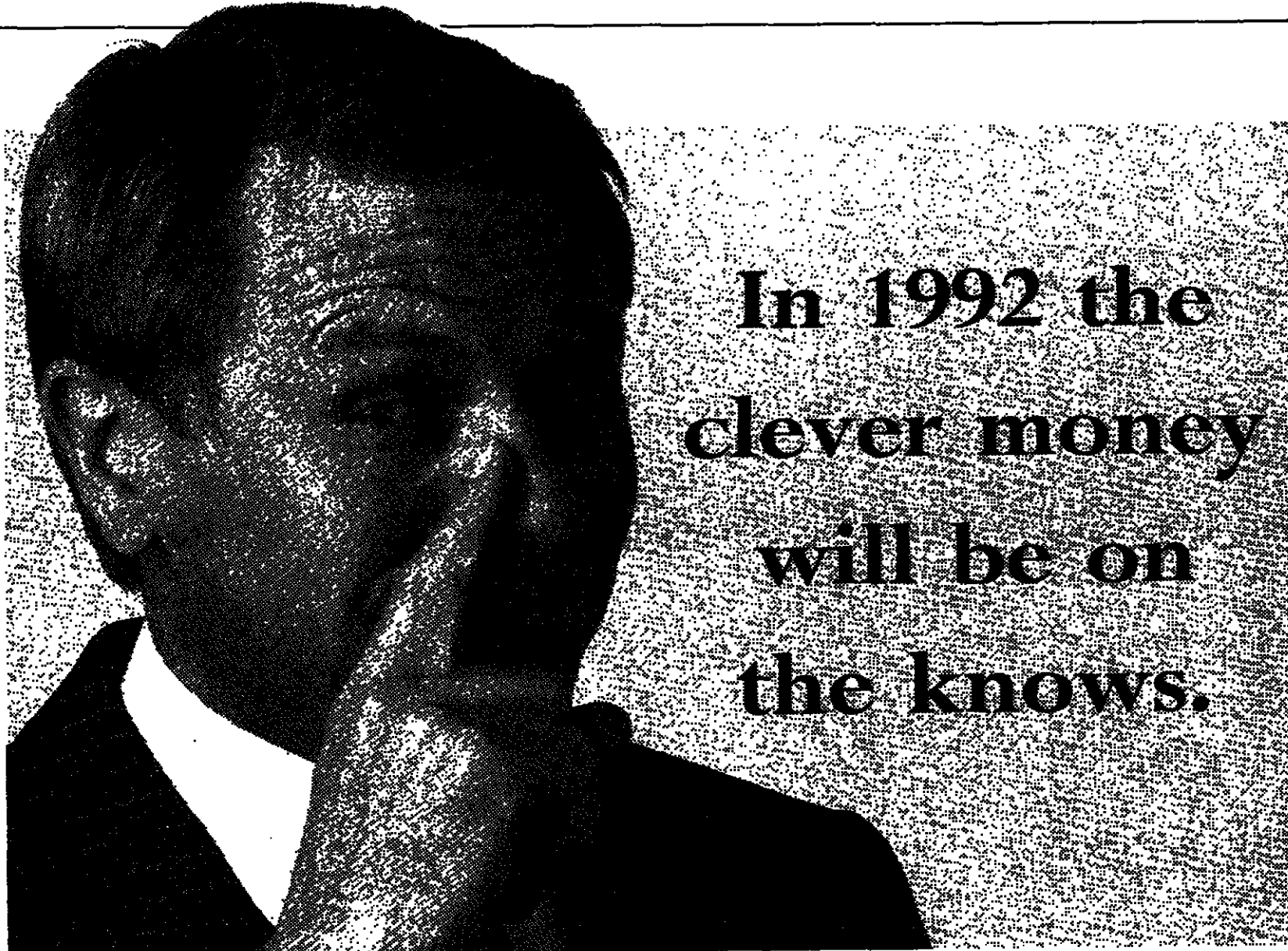
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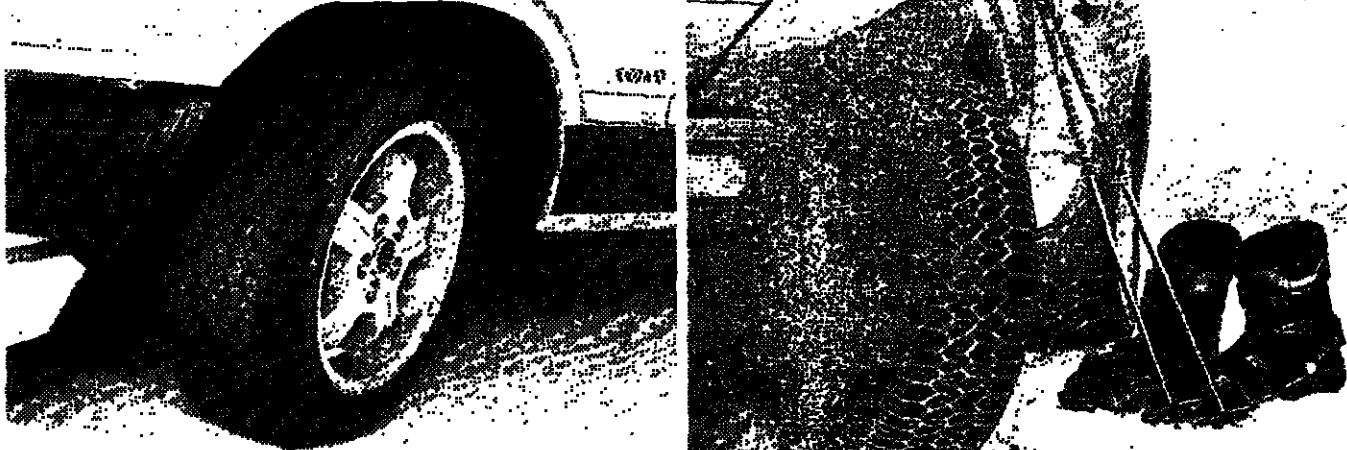
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MANAGEMENT

The tyre industry

Tracking separate trails

Haig Simonian and Andrew Fisher examine Pirelli's industrial argument for bidding for Continental and the German tyre maker's reasons for resisting the Italian company



As shareholders of Continental, the German tyre-maker, troop into Hanover's Congress Centre today, they are unlikely to be thinking much about industrial logic or how the European industry can meet growing Japanese competition.

For, in the heat of the merger battle between Continental and Pirelli, attention has shifted from the aspects of industrial strategy which the Italian company has tried to stress as its reason for initiating the deal.

Today's extraordinary general meeting is not expected to resolve the question of whether the Italian company should take control of the German manufacturer.

Pirelli did not seek the EGM, called by a small Continental shareholder to discuss the issues raised by the merger proposals. But once it is over, it says it will still be backed by a majority of Continental's shareholders and keen to push its merger proposals. So why does it think a merger would benefit both companies?

The arguments set out by Carlo Banchieri, Pirelli's director of tyre products and one of the deal's architects, centre on research and development, production technology and marketing, and geographical spread. Continental, opposed to a merger, certainly on Pirelli's terms - says it would be better off staying independent, especially in the tyre industry's present dire state.

"Throughout the 1980s, we made great efforts to move from the purely nationally oriented Conti of the 1970s to create a global concern," Horst Urban, chief executive of the German company, asserts. As well as buying General Tire of the US, it has developed links with Yokohama Rubber and Toyo Tire of Japan, acquired small producers in western Europe, and striven to build up tyre distribution outlets, notably in the UK.

But Pirelli thinks Continental could do better. "It's not what it could be, given that it's in Germany where the premium and super-premium market is strongest," says Banchieri.

This is how he sees the advantages of a merger. ■ Research and development. Development spending has become increasingly important as types and sizes of tyres have proliferated. But Banchieri believes neither Pirelli nor Continental spends enough to keep pace with bigger rivals like Michelin of France, Good-

year of the US, and Japan's Bridgestone, the world's top three. (Continental is number four and Pirelli number five; even merged, they would still be in fourth place.)

The sharp rise in the types of car tyres has been triggered by the expansion in sizes, notably for the high performance "ultra low profile" tyres fitted to exotic cars like Ferraris.

Today, a high performance manufacturer wants many sizes, made to its own specification. A company offering less than a full range risks losing market share, and ultimately profitability, Banchieri reckons.

But the associated R&D costs are an immense burden on mid-sized tyre-makers like Pirelli and Continental; merging would let them make the fullest range of tyres at the relatively low volumes required without sacrificing profitability, the Italians argue.

For despite smaller production runs, upmarket tyres can be lucrative. A strong presence in this market also polishes the prestige of a marque in general, making it easier.

■ Production technology. Pirelli reckons a merger could yield benefits through spin-offs in sharing tyre-making know-how and gains from combining resources more efficiently.

Banchieri claims Pirelli's processes for the automated manufacturing of high-quality, relatively low-volume, performance car tyres are ahead of the industry. He says Pirelli's

Bollate works near Milan is currently the only plant able to mass-produce high-performance tyres to the precision and quality levels required with a minimum workforce.

Although Michelin has a similar facility near the operational phase, Pirelli's engineers believe they still have a substantial technological edge. "We don't think Conti has this," says one.

Joining forces would also, Pirelli claims, spur big cost savings by allowing the companies to rationalise production of standard tyres. Again, Urban has rejected Pirelli's synergy arguments, stating that claimed annual savings of up to DM450m (\$250m) after four years are too ambitious.

Pirelli sees the main competitive danger as being not Michelin, but Bridgestone, the Japanese group which is now the world's third biggest tyre-maker after buying Firestone in the US. Pirelli executives fear Bridgestone is more willing to invest in expanding its range than Michelin, which is now hobbled by a tumble into the red.

That could turn the Japanese into "a very dangerous competitor," says Banchieri. Together, Pirelli and Continental could meet them head-on. Separately, they are "below the critical mass".

■ Marketing. Rather than diffusing the two companies' images, Pirelli argues that a merger would allow them to develop more coherently. How-

ever, says one top German motor executive, "Pirelli is not experienced in multi-brand management". While he sees sense in a merger, especially to combat the Japanese, he believes the Italian company has not done enough to argue its case to car-makers.

In terms of image, Continental is seen by the two. None of its three marques, including Uniroyal and Semperit as well as Continental itself, is as clearly defined as Pirelli, which markets some 80 per cent of its output under its own name and which already occupies a clearly-perceived niche in the premium tyre sector, which it leads in Europe.

Joining forces would allow a greatly improved marketing strategy based on all four brands, which could then be targeted to different sectors of the market, Banchieri argues.

But although names and tread patterns might differ, the basic tyres would become more standardised. It could take three or more years for production processes to be brought into line, but eventually, part of each manufacturer's factories could be devoted to producing other group brands.

Some overlapping would be encouraged to allow inter-brand competition and increase the impression of choice. One way would be to give Continental access to Pirelli's premium and super-premium tyre technology to capitalise on its links with the

German car industry, the world's biggest user of high performance tyres.

■ Geography. The two companies are tailor-made for an alliance, under Pirelli's master plan. Continental disputes this. In Europe, Pirelli feels the complementarity is obvious, with Continental stronger north of the Alps and Pirelli better established to the south. But it is in the US and Latin America where Pirelli sees the fit as best. Both Pirelli and Continental have bought second-tier US tyre producers to establish a bridgehead, though their market shares remain low.

Joining forces would certainly achieve Pirelli's three aims of boosting its presence in replacement tyres for cars; breaking into the market for tyres fitted as original equipment by US vehicle makers; and raising its tiny share of the market for truck tyres.

Linking up would also make marketing sense, given the brand segmentation in the US, where Michelin alone sells tyres under four names, as well as producing tyres for retailers' own-brand sales. Pirelli could represent the top-flight European product. Continental would be pushed for its German image, General Tire would run as a strong US brand, and Armstrong (owned by Pirelli) would round things off as a budget domestic label.

Says Banchieri: "It makes a very complete package - full brand, full product, full seg-

mentation." Merging would also help both Continental and Pirelli to forge closer contacts with the US auto industry for original equipment, Pirelli believes.

In Latin America, the Italians are the stronger. While Pirelli is in Brazil and Argentina, Continental is barely present. But the German company likes it that way, since it does not regard the region as too promising. "We are glad not to be there," Urban says.

Bridgestone is again the bogey in South America. Pirelli fears the Japanese could use their ownership of Firestone, active in Latin America, to introduce Bridgestone products. Linking with Continental would let Pirelli meet the challenge head-on. "Conti products could be a very useful weapon against a potential Bridgestone attack," Banchieri says. Pirelli could introduce Continental's marques into Brazil and Argentina where "it could be useful to have an alternative range". General Tire, which sold its local operations to Pirelli, could also be reactivated in Latin America.

The same trick could be performed in reverse in Mexico, where Pirelli's tyres could be produced at General Tire's factories. Collaboration would also be appealing in Asia.

Although based on car tyres, many of Pirelli's arguments are applied by the company to trucks, too. Here, the focus is on Europe, where Michelin is the uncontested leader, with about half of all sales. There is no obvious number two. Combining Continental's share with Pirelli's would create "a true and real competitor to Michelin", Banchieri says, adding that it could generate handsome profits.

Banchieri insists that a full merger of the German and Italian companies' tyre businesses would not lead to a wave of job losses, since there has already been a shake-out in the industry. But Pirelli has still to convince Continental's workforce of the benefits of an amalgamation. Many shareholders and analysts are also sceptical. "A merged Continental-Pirelli would start life loss-making, with difficult management tasks to perform and few financial benefits from the merger until the next automotive up-cycle," says John Lawson, automotive analyst with Nomura Research in London.

Pirelli accepts that the benefits of a merger would take time to show through. Today's EGM will only be one step, though an important one, in making its presence felt.

A caring role for the pension funds

By Simon Holberton

The medieval scientist would not believe his luck. His search for perpetual motion actually exists. It is to be found in that peculiarly Anglo-Saxon debate about industry, the capital markets and the relative performance of Britain's industry and that of Germany and Japan. It never seems to stop.

The latest participant is Peter Drucker, the eminence grise of management thinkers. He both sheds light on the debate and lives up to what he is celebrated for - identifying trends. All this, and a little more, in a lucidly argued article for the Harvard Business Review.

Drucker's article - "Reckoning with the pension fund revolution" - is about takeovers, corporate governance, and the responsibility of institutions which, on average, own 40 per cent of the equity and the debt of America's large companies.

He divides the post-Second World War period into two parts. The first, which lasted until the late 1970s, was characterised by a type of management which subscribed to the enlightened despotism of Ralph Cordiner, the early post-war chief executive of the General Electric Company of the US.

In about 1950, Cordiner argued that senior executives were responsible for managing companies "in the best balanced interests of shareholders, customers, employees, suppliers, and plant community". This was a conception of manager as "trustee" and encompasses what management theorists today would call "stakeholders".

The second developed in the 1980s. This sees the role of the top executives of a company as one of maximising "shareholder value". This crops up all over the place and has made strange bedfellows of some of the unlikeliest companies; both Hanson and ICI place shareholder value next to, or at the top of, their corporate goals.

Companies moved from "stakeholders" to "shareholder value" via takeovers. Through the 1970s and 1980s this became the mechanism for addressing management's failure to perform. Cordiner's definition of management was silent on what performance and results produced the best

balance, and failed to develop a method of accountability. Drucker agrees that the driving force behind company takeovers has been pension funds. The concentration of voting power in their hands has made easier the process of acquisition than it would have been had a raider needed the support of millions of individual shareholders for its bid.

Takeovers kept alive the illusion for pension fund managers that they could sell what they owned. The first is that pension funds cannot really sell; they are too big to do more than operate on the margin only. The second is that, through the medium of a bid they exchanged their equity not so much for cash but for convertible warrants, unsecured loans or junk bonds, "non-cash, non-securities" which are rapidly losing value.

Faced with this reality pension funds have little option but to learn from what George Siemens, the founder of Deutsche Bank, said 100 years ago: "If one can't sell, one must care."

And therein lies the trend. Drucker has spotted a change in the behaviour of investors, especially those fund managers working for US public bodies who are beginning to act like owners and take an interest in the management of companies in which they invest. But it will move a stage further.

"It may not be too fanciful to expect that in 10 years' time a major pension fund will not invest in a company's shares or fixed-income securities unless that company submits itself to a business audit by an outside professional firm," says Drucker.

The "owner" and the company will meet at the board of directors level. Making a board effective, he argues, requires defining its work, setting objectives for its performance and contribution, and regularly appraising it against those objectives. Moreover, they are effective only if they represent strong owners who are committed to the enterprise. He thinks the pension fund just might be evolving into such an owner. *FTB March-April, 1991, reprint No. 31281. For copies, fax (Netherlands) 31-3433-1910.*



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Brussels in
Japan Expo
pricing
agreement

THE EUROPEAN COMMISSION has rejected a proposal by the Japanese government to allow airlines to charge higher fares for passengers travelling to and from Japan. The Commission said the proposal was "incompatible with the principles of free competition".

The Japanese government had proposed that airlines operating between Japan and Europe should be allowed to charge higher fares for passengers travelling to and from Japan. The proposal was part of a wider effort to increase competition in the Japanese airline market.

The Commission said that the proposal was "incompatible with the principles of free competition". It said that the proposal would allow airlines to charge higher fares for passengers travelling to and from Japan, which would be "discriminatory" compared to passengers travelling to and from other parts of Europe.

The Commission also said that the proposal would "distort competition" between airlines operating between Japan and Europe. It said that the proposal would allow airlines to charge higher fares for passengers travelling to and from Japan, which would be "discriminatory" compared to passengers travelling to and from other parts of Europe.

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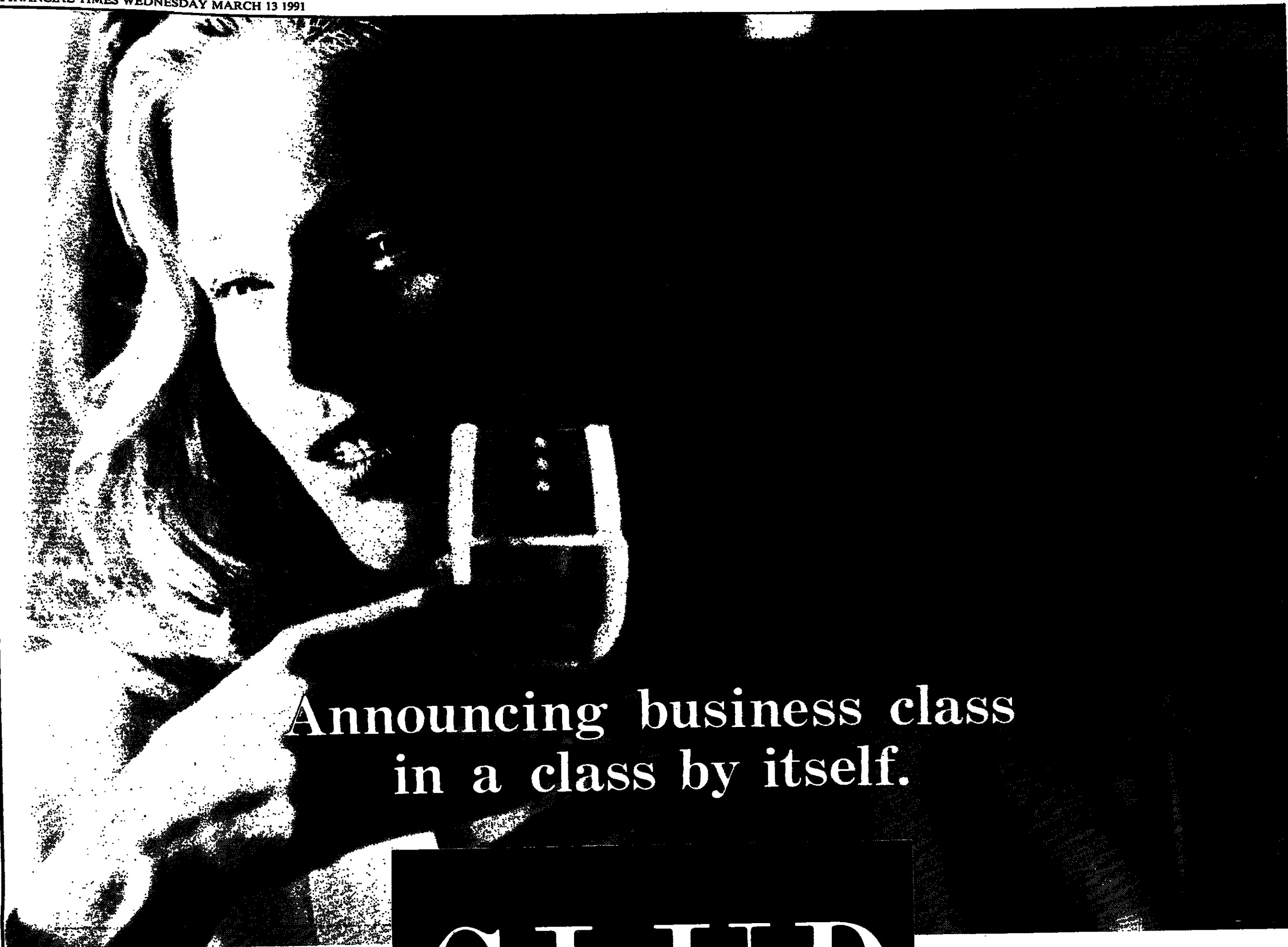
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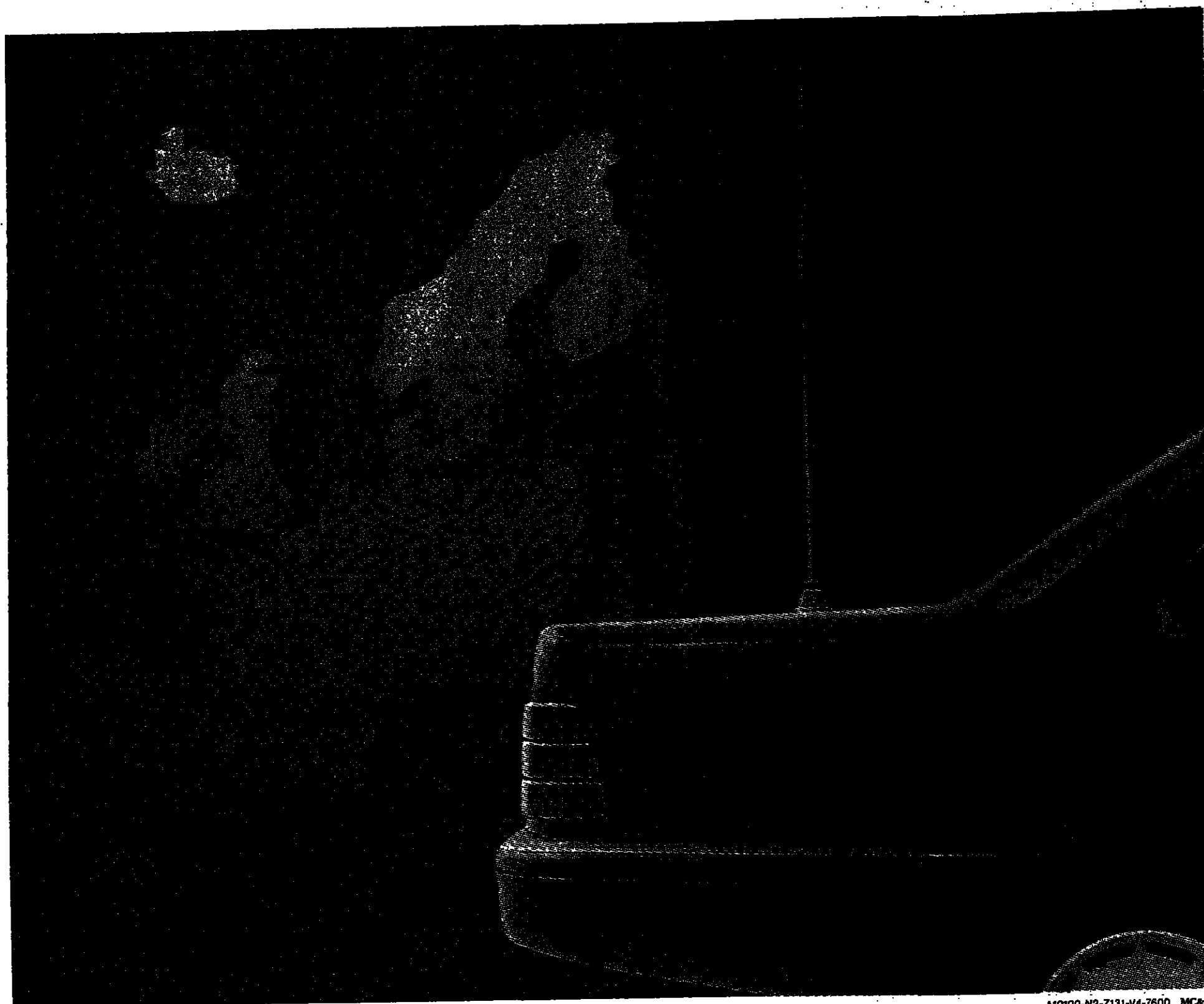
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Katya Kabanova

METROPOLITAN OPERA, NEW YORK

Janacek's operas, though rarer in America than in Britain, have not been neglected here. San Francisco, Houston, Kentucky have championed them. In New York, the City Opera does *Makropulos* and *Vixen*, and last season added *From the House of the Dead*. The Met, in whose huge space any drama is diminished, has been less successful. It essayed *Jenufa* in 1974 (with Jeriza) and again in 1974, but the first production was never revived and the second only once. Now the Met has done *Katya* - the city's first professional staging of the piece, and the first since Christopher West produced it at the Julliard in 1964, with Lorna Hayward.

Charles Mackerras conducted, Jonathan Miller produced and Robert Israel designed. This was a more serious piece of work than the new *Don Giovanni*, *Bello* and *Semiramide* of the season. It was generally acclaimed. I'm odd-man-out in feeling some disappointment. Perhaps I've been too often stirred by the opera in smaller houses (Amy Shuard and Mackerras at Sadler's Wells 40 years ago, and often since), sung in direct, communicative English or German (the Met used Czech, per carped, and in vivid productions, with younger casts).

Gabriela Benackova sang a memorable concert Katya here

12 years ago, for Eve Queler (who has also brought us, in concert, *Rusalka*, *Dalibor*, *Libuse*, *Jenufa*). But she is a rather sedate figure on stage, a placid actress. Making her Met debut, she was an unimpressive, unexciting heroine: not Janacek's neurotic, troubled heroine but a mature, confident, with radiantly beautiful notes in her voice and a sure command of the role. The Kabanova was Leonie Rysaneck, who was unaccountably unformidable.

Boris was another veteran, Wieslaw Ochman, who did not for a moment suggest a glamorous young man from Moscow dazling the provincials. Susan Quittmeyer's Barbara, the soubrette role, an Olga to Katya's Tatiana (remember Marion Strohmer?) - was a big butch mezzo. But Age Haugland was an excellent Dikoy, and Peter Straka was a nimble Vanya.

Acts I and II, as Janacek wanted, were played without interval. The decor was neither realistic nor "psychological", but merely bleak: two acts in black and white. The great river, whose powerful flow informs the score, was unrepresented. The romantic ravine of the lovers' tryst became the backyard of the Kabanov house. On an almost bare stage, a single room of that

house, realistically modelled, placed sidestage for the first and fourth scenes, was trucked centre stage, rumbling and thumping, for the interior scenes. The family evidently lived and slept elsewhere, in dependence, for entrance and exits to and from that realistic room were made across the street. The servants carried Tikhon's luggage on from somewhere else in the town, across the street, into the room. The effect was faintly absurd.

A critic in the *New York Times*, in an introductory article to the Met *Katya*, called Sir Charles's Janacek conducting, as evidenced in his famous Decca recordings, "bland." I blenched. "Bland" is a word I think I may have used in these pages of Mackerras, and excited and excitable is what his performances have ever been. Yet at the Met *Katya* I heard what Kenneth Furler, the *Times* writer in question, meant. Sir Charles has mellowed. Forty years ago, in Sadler's Wells, he and Miss Shuard bowled us over with their excited discovery of Janacek's greatness. At the Met, he and his singers and the great Met orchestra now more calmly, more confidently reveal the beauty, the balance, the eloquence of Janacek's score.

Andrew Porter



Wieslaw Ochman and Gabriela Benackova

Unlawful Killing

STRATFORD EAST

The billboards proclaim a political thriller which could be judged as an offence under the *Indecent Displays Act*, since Judith Cook's dramatisation of the Hilda Murrell murder is more inclined to exclamation than to question marks. As the journalist behind the book *Who Killed Hilda Murrell?* she is better placed than most to opine about the death of this 78-year-old rose grower and anti-nuclear campaigner, whose battered body was found near her abandoned cottage miles from her home in Shrewsbury in 1984.

Attempts to attribute the murder to a botched burglary proved singularly unsuccessful, and from the ensuing maelstrom of speculation - whipped up by some astute agitator from the MP Tam Dalyell - two theories emerged: either her killers were after a submission she was preparing for the Sizewell B inquiry, or they suspected her of possessing

documents relating to the sinking of the Belgrano in the Falklands War. Both theories were based on a conviction that the murder was a mistake, and that it was carried out by agents of the government security services.

Cook's adaptation seizes the common ground to present a crime committed by bungling lackeys at the end of a long and tortuous chain of command going all the way to Whitehall.

Jenny Tiramani's design makes the point graphically, with a pyramid of desks, filing cabinets and papers at the top of which sits a "senior civil servant" and at the bottom of which is Hilda Murrell. The set is cluttered with video screens from which are beamed landmark speeches by the last Prime Minister, including her famous quotation from Francis of Assisi, which raises jeers from the famously partisan Theatre Royal audience.

These are the most effective moments in a lumbering and

obvious evening, which skimps on original analysis much as it skimps on any subtlety of characterisation or situation. Murrell is played by Anita Wright as a pale and anxious old bird, devoid of any obvious campaigning fire, and on all sides by caricatures. Notably missing from the dramatis personae - perhaps in deference to him - is Murrell's nephew Robert Green, whose resignation from the Navy immediately after the Falklands War provided such source of speculation, and who has so tirelessly campaigned for justice since.

Jeff Teare's production is stacked with confusing decks of unnecessary characters, including a reporter (Vanu Dhupe) whose function appears to be to tell the story in lieu of a clear dramatic line. Anyone wanting to refresh their memory about this most bizarre and sinister case would do better to read the book.

Claire Armitstead

ARTS

TELEVISION

All doom and gloom

When my daughter, at the age of about four, sat with me as I watched television she would often say "Is this another interesting programme?" and the contempt she instilled into "interesting" had to be heard to be believed. What she meant was a programme in which the primary object was information, not entertainment, but there was a further implication: she nearly always saved her question for the particularly harrowing or depressing programme. Fifteen years later the expression is still in the family argot. "Oh dear" we say to one another gloomily, five minutes into a programme "this looks like another of Holly's interesting ones."

Considered individually such programmes often are the most interesting in a week's television, but when you see them one on top of the other the effect can be dreadfully dispiriting. If you are aware of this and have noticed an approaching concentration which you suspect will make the troubles of the world seem unendurable you can, of course, deliberately avoid them.

I have been doing precisely that in the past 10 days or so. I was careful not to watch the edition of *Cutting Edge* which promised "allegations of staff brutality against patients in a top security hospital on Merseyside". Next day I took steps to miss *The Black Bag* which announced that "black and Asian homosexuals face a unique double dose of prejudice, struggling to reconcile their race with their sexuality and subject to racism from within the wider gay community".

On the following day I did intend to watch *Dispatches* even though it was offering stories of brutality and torture because the subject was *Theatre* and the reporter was the brave and incomparable Vanya Kewley, but on that occasion I must have pressed the wrong button on one of the VCRs because we ended up with 45 minutes of football. However, missing *Affairs Of The Heart* next day was wholly intentional since an account of Scotland having the world's worst record for coronary disease really did not appeal.

Those are only the highlights of what I ducked, yet even after such an elaborate avoidance scheme the programmes I did see still make me feel as though I have spent the week being beaten about the head by team of angry social workers armed with rolled copies of *The Guardian*.

Tuesday last week, for instance, brought the first in a new series of *Nature*. It opened with assertions from

earnest children, that world temperatures keep rising and the poles are going to melt, that more and more people are being born but less and less crops being grown, and so on. It made you despair of teachers. For a moment I had the mad thought that presenter Michael Buerk would come on and point out that for every potentialist theorist you can find a scientist who denies it, and that crop yields keep going up, not down.

But these days, of course, no green hysteria is too extreme for television: the producer decided to let the tots' misinformation go uncorrected and we were taken to watch something called "Kids Meeting Kids" in New York. This confirmed what I have suspected for some time: that feminism is about to be joined by kidism. After a decade of rights and liberties being demanded not for everybody but just for women, we are now to hear similar demands being made exclusively for "kids". A sanctimonious cretin, proclaimed by the New York meeting began "What do kids need? Kids need clean air..." The rest of us can choke to death.

Less than an hour after that ended, still on BBC2, came the latest in that excellent series *Taking Liberties*. Producer Rhonda Evans and presenter David Jessel told the dreadful story of Mary Winch who, where another Mary had "Calais" inscribed, presumably on the line from *Henry VI Part 2*: "The first thing we do, let's kill all the lawyers". There to lead advice or to give contradictory advice from a succession of lawyers, Mary Winch has lost her mother's house and her money and been incarcerated in prison and a mental hospital. With the world so full of such serious wickedness and horror, what on earth are we doing watching a person such as Mary Winch? At least this programme may (though only may) have helped her.

Next day came an edition of *Bookmark* which we surely had every right to assume might be highly entertaining: a profile of Kingsley Amis to help boost the sales of his memoirs. It turned out to be a depressing picture of a boring old buffer who surely could not be the witty writer who gave us such fresh and sparky works as *Lucky Jim* and *The Old Devils*. But if that disappointed you on Wednesday, how did you feel on Thursday after *40 Minutes: The Big True Stories: An Avenue Called Brazil*?

On the *40 Minutes* programme I was wrong last week when, lower down this page, I surmised (after seeing the trailers) that it was a good opportunity for



Transvestite prostitutes in 'An Avenue Called Brazil'

looking up the cheer leaders' legs. There was a minimum of that in Mark Frith's film about the implications of the annual ball game at Louisiana High School and a maximum of telling social detail. It conveyed a brilliantly impressionistic idea of the suffocating provincial atmosphere - seemingly unchanged for decades - of this sort of American town.

As for *An Avenue Called Brazil*, it was quite enough on its own to drive you to the bottle. Over the years viewers have grown accustomed to documentaries detailing the hideousness of life for so many who live in the barrios of South America. We have seen films about children hustling on the streets, about prostitutes or junkies, about bank robbers or gang warfare. This programme, which took a multi-lane highway as its connecting theme, was about all that and more: transvestite prostitutes, and modern highwaymen who, when it rains, stuff the drains with plastic to flood the road and then rob the car drivers who are forced to stop. Director/producer Octavio Bezerra even managed to film from the centre point of a gun battle in a shanty town.

Difficult, you might have thought, to screen anything much more dismal or disheartening than that, but on Sunday BBC2 came up with a couple of programmes which had been doing some impressive work at home and abroad summarised the situation in the USSR.

Just about everyone in the current affairs business has recently been to Russia, but this was the most graphic and striking report yet: the black mar-

ket - literally a market place - in car parts, the shoe-less shoe shop, and of course the Goplain forecast (revealed to the world by the *Money Programme* and followed up by *Monday's newspapers*) predicting a minimum 11.6 per cent increase in GNP this year. The more you watched and thought about this programme, especially its forecast of a return to totalitarianism before democracy and a market economy become possible, the more desperately grim its implications became.

And then, just to prove that however bad things seem they can always get worse, BBC2 brought the week to an almost unwatchable climax with one of the most harrowing single dramas I have ever seen on television, *Morphine And Dolly* features, an adaptation of Carol Ann Courtney's heart rending account of her terrible childhood: her mother's death and her father's appalling cruelty, mental and physical. The acting by Gwendolyn Davies as Gran and Patrick Bergin as the father was remarkable, but Joanna Griffiths who played the child must surely win awards. In an age of greatly improved child acting her performance was outstanding.

However, an even smaller girl would once have described this play wearily as "interesting", divining instinctively that it was factual and scarcely what you could call entertaining. Had she been present, my week's viewing might have featured more comedy and less heartache, which would no doubt have been an excellent idea.

Christopher Dunkley

The Lady from the Sea

PICCOLO TEATRO, MILAN

Ibsen has been familiar to Italian audiences for well over a century, thanks first of all to the ever-vigilant censor, who introduced many of his works and, in her last years, chose his *The Lady from the Sea* for her historic reappearance. Among her surviving letters there is one to the couturier Worth, in Paris, describing a certain cloak he was to make for her: it was to be blue, the blue of the sea, but a shifting, ambiguous colour (the cloak is now in the little Duse museum in Asolo).

What would Duse make of the current production of Ibsen's play at the prestigious Piccolo Teatro in Milan? The cast is headed by the beautiful and mysterious heroine. It is still a pity, however, that certain words, which obviously give her trouble, could not be replaced - after all this is a translation - with less intractable ones. When she twice stumbles over *scavallante* the result is not mysterious, but simply awkward.

Still, she is very much a star, and her authoritative presence underlines the drabness of the rest of the cast. Brockhaus favours her also with the lighting: she is the only person on stage whose features can be clearly seen a good deal of the

decades. Strehler has been stripping down his productions, abolishing virtually everything except the actors and the text. And lately there has come to be a kind of monotony about the producer's work, and not only visually. Some devotees of the house have ascribed this dullness to Strehler's preferred leading lady, Andrea Jonasson, whose Nordic accent can diminish the impact of her words and give them a too-expectable cadence, like the speech of a television news-reader. As Ibsen's Elida, Jonasson actually incorporates her exotic sound (now, for that matter, much more Italianised than it used to be) into her characterisation, having exactly the same weight as the more intense and probing dialogues between Elida and Wangen.

Admittedly, humour is not Ibsen's long suit but Brockhaus seems to have no sense of humour at all. The scenes with Elida and the Stranger (played also by a Scandinavian actor) created a kind of inadvertent comedy. As the two actors spoke to each other in poor Italian, I could not help wondering why they did not slip into some other language more comfortable for them both.

William Weaver

Vienna Symphony

BARBICAN HALL

Three Mozart symphonies might seem an unenterprising programme for a visiting orchestra, but the Vienna Symphony's concert on Monday was conducted by Nikolaus Harnoncourt. For 17 years Harnoncourt was a cellist in this orchestra, setting out on his explorations of period performance with his own Concentus Musicus while still keeping one foot in the traditionalist camp. Now, with the battles of authenticity mostly won, he appears increasingly with symphony and chamber orchestras, bridging the gap between the two apparently irreconcilable worlds.

Whatever the performing style, there is always much to admire in Harnoncourt's performances, and much to ponder. The robust muscularity, driving momentum and punctilious attention to the minutiae of articulation are all thrilling on first impressions: only gradually do the interpretations begin to seem hard-baked, a little too insistent, their expressive moulding contrived. Of the three symphonies in this programme, the Haffner, the Linz and the Prague, it was the Linz that emerged freshest and most convincing, isolated details in the Haffner, brass entries,

woodwind solos, were stunning, but interest was not sustained and musical tension was invariably short range.

Everything in the Linz, however, seemed newly minted, as if invented on the spot, with the inner string lines given magical prominence. Parts of the Prague too trembled with drama, but the working out of each movement became heavily self-conscious, as if Harnoncourt was desperate that not a single musical note should be missed. And the authenticist's passion for repeats gave that of all the symphonies the most curious proportions; no historical evidence would convince me that each movement in the finale of the Prague was really meant to be observed, and that Mozart envisaged audience should be plunged into its total dramas for a second time, just after hearing them all so consummately resolved.

The Vienna Symphony may lack the instantly identifiable personality of its more famous neighbour, and the Philharmonics' instinctive total blend and ensemble, but it is a responsive band, which delivered most of what Harnoncourt demanded.

Andrew Clements

INTERNATIONAL ARTS GUIDE

TODAY'S EVENTS

AMSTERDAM

Concertgebouw 20.15 Wolfgang Sawallisch conducts Royal Concertgebouw Orchestra in Beethoven's Fifth and Sixth symphonies, also tomorrow (6718 345). Muziektheater 18.00 Béjart Ballet Lausanne in *Ring* and *Die Walküre*, four hours of Wagner's music choreographed by Maurice Béjart. Runs till Sat (6255 455).

BERLIN

Staatsoper unter den Linden 19.30 Lorzing's opera *Zar und Zimmermann*, Tom Ziemann. Tonhalle 20.00 *Die Walküre*, Set: Manon Lescaut. Sun: new production of *Pelléas et Mélisande* (2004 762).

Schauspielhaus 20.00 Berlin Sinfonietta conducted by Georg Christoph Biller. Play: *Die Walküre*, Set: Manon Lescaut. Sun: new production of *Pelléas et Mélisande* (2004 762). Staatsoper 19.30 *Die Walküre*, Set: Manon Lescaut. Sun: new production of *Pelléas et Mélisande* (2004 762).

BONN

Oper 19.00 Dennis Russell Davies conducts *Die Frau ohne Schatten*, with Ute Vinzing as the Dyer's Wife, Siegmund Nimsgern as Barak, Paul Frey as the Emperor and Sabine Hass as the Empress, also Sun. Tomorrow and Sat: new production of *Falstaff* (773667).

COLOGNE

Opernhaus 19.30 Inga Nielsen sings *Violetta* in *La traviata*, also Sat. Sun: Harry Kupfer's new production of *From the House of the Dead* (221 8400). Schauspielhaus 19.30 Brendan Behan's play *The Hostage* directed by Walter Bockmayer, also Fri. Tomorrow and Sat: Gunter Kramer's production of Goethe's *Stella* (221 8400).

GENEVA

Viktoria Hall 20.30 Horst Stein conducts Bamberg Symphony Orchestra in Richard Strauss' symphonic poem *Macbeth* and Brahms' First Symphony, with Brigitte Fassbaender soloist in Mahler's Kindertotenlieder (283573).

LONDON

MUSIC Covent Garden 19.30 Carlo Rizzi conducts *Il barbiere di Siviglia*, with Jennifer Larmor as Rosina, Bruce Ford as Almaviva and Francis Le Roux as Figaro, also Fri. Tomorrow: Samson et Dalila (240 1066). Coliseum 19.00 Stuart Challender conducts David Pountney's production of *Rusalka*, with Nancy

Gustafson in title role, also Sat. Tomorrow: Salome. Fri: Aribert Reimann's *Lea* (838 3161). Queen Elizabeth Hall 19.00 Peter Robinson conducts David Freer's production of *La Nozze di Figaro*, sung in English. Fri: Alban Berg Quartet. Sun: Piano recital by Peter Serkin (928 8800).

Barbican Centre 19.45 Viktor Lieberman, violin, and Yuri Bashmet, viola, join English Chamber Orchestra in Mozart's music from the year 1779. Sun: Rafael Frihbeck de Burgos conducts LSO (638 8891). THEATRE This week's shows include a revival of Theatre de Complicite's award-winning production of *Durand's The Visit* (National), William Nicholson's new play *Map of the Heart*, a romantic tangle set in wartime Sudan (*Globe*), Silly Cow, Ben Elton's new play about a gossip columnist (*Haymarket*), Peter Hall's production of *Twelfth Night* (Playhouse) and Joe Orton's classic black comedy *What the Butler Saw* (Wyndham's). Phone Theatreline: Plays 0836 430959. Musicals 0836 430960. Comedies 0836 430961. Thrillers 0836 430962.

MADRID

Auditorio Nacional de Musica 19.30 Luis Izquierdo conducts Spanish National Orchestra. Fri, Sat and Sun: Walter Weller conducts Spanish National Orchestra (337 0100).

MUNICH

MUSIC Staatsoper 19.00 Ermanno Mauro sings title role in *Otello*, with Bernd

Weikl as Iago and Sharon Sweet as Desdemona. Also Fri (221318) Philharmonie 20.00 Sergiu Celibidache conducts Munich Philharmonic Orchestra in Brahms' Ninth Symphony, with Daniel Barenboim soloist in Schumann's Piano Concerto. Repeated tomorrow, Fri and 11.00 on Sun, also next Mon and Tues (48098 814).

NEW YORK

MUSIC Alice Tully Hall, Lincoln Center 20.00 String Quartet programme with Ridge Quartet (874 2424). Carnegie Hall 20.00 Ivo Pogorelich plays Chopin, Ravel and Beethoven. Tomorrow: Mehta conducts Mahler's Ninth (247 7800). Metropolitan Opera 20.00 Charles Mackerras conducts Jonathan Miller's new production of *Katya Kabanova*, with Gabriela Benackova as Katya and Leonie Rysaneck as Kabanov. Tomorrow: new production of *Parsifal* (362 6000).

ROTTERDAM

De Doelen Grote Zaal 20.15 Valery Gergiev conducts Rotterdam Philharmonic Orchestra in Brahms and Tchaikovsky programme, also tomorrow and Sun (414 2490). De Doelen Kleine Zaal 20.15 Robert Holl sings *Winterreise* accompanied by Konrad Richter (414 2490).

STOCKHOLM

Konserthuset 19.30 Peter Schreier conducts Stockholm Philharmonic Orchestra in Mozart's Requiem, with Hans Leygraf soloist in the Piano Concerto No 18. Also

answers inquiries and sells tickets

PARIS

MUSIC Opéra Bastille 20.00 Gwyneth Jones sings *Les Contes de Hoffmann* and Strauss' *Four Last Songs* in a concert conducted by Myung-whun Chung. Repeated tomorrow (4001 1616). Théâtre des Champs-Élysées 18.30 Pascal Letoury plays three piano sonatas by Mozart (4720 3637). TWP-Châtelet 19.00 Cleveland Quartet plays string quartets by Mozart, Prokofiev and Dvorak. (4028 2840). DANCE Palais Garnier 19.30 Netherlands Opera in two ballets by Jiri Kylian, music by Stravinsky and Ravel. Also tomorrow and Fri (4742 5371). Opéra Comique 20.00 Paris Opéra Ballet in *Coppelia* with designs based on original 1870 Paris production. Plus Balanchine's *Divertimento No 15* (4286 8883).

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tomorrow and Sat (2441300)

STRASBOURG

Palais des Congrès 20.20 John Nelson conducts Strasbourg Philharmonic Orchestra in music by Gershwin, Bernstein and Faure, with Marc Copey soloist in Tchaikovsky's *Rococo Variations* (8837 6777).

VIENNA

Staatsoper 19.00 Sylvain Cambreling conducts La Clemenza di Tito with Ann Murray as Sesto, also Sat. Tomorrow: *Falstaff* (51444 2980). Musikverein Brahms-Saal 19.30 Charles Mackerras conducts London Baroque in music by Handel, Mozart, Bach and Vivaldi. Fri: Vienna String Sextet plays music by Mozart, Bartok and Schubert (505 8190). Konzerthaus 19.30 Martin Hasselböck conducts original-instrument performance of *La Deposizione* dalla Croce di Gesu (1728), oratorio by Johann Joseph Fux, with soloists Dorothea Roschmann and Amanda Halgrimson. Set: René Jacobs conducts Zelenka's *Jeremiah Lamentations* (7124 6860).

ZURICH

Tonhalle 20.15 John Carewe conducts Tonhalle Orchestra in Vaughan Williams' *Tallis Fantasia*, Beethoven's Seventh Symphony and Saint-Saëns' *Cello Concerto* No 1 with Heinrich Schiff, also Fri. Tomorrow: Borodin Quartet and Vladimir Krainin play chamber music by Prokofiev, Shostakovich and Schnittke (201 1580).

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY

Eurosport 0600-0630 International Business report. CNN 0500-0530 Moneyline. 0800-0830 Moneyline. 1300-1400 Business Day. 2000-2030 World Business Today - a joint FT/CNN production with a review of the day's major business stories. 2200-2330 World Business Today. 0100-0130 Moneyline. Superchannel 0700-0830 Financial Times Business Report. A five minute business briefing broadcast three times between 0700 and 0800. 2130 & 2220 (Wed only) and 0830 (Thurs only) Financial Times Business Weekly.

SATURDAY

CNN 0900-0830 Moneyline. 0900-0930 World Business Today - a joint FT/CNN production. 1540-1610 Moneyweek. 1900-1930 World Business Today. 2110-2140 Your Money. Superchannel 1800-1830 FT Business Weekly. CNN 0710-0740 Moneyweek. 1540-1610 Your Money. 1900-1940 Moneyweek. 0040-0110 Inside Business.

Wednesday March 13 1991

The limits of tinkering

WHAT IS the value of an oft-proclaimed principle – that everyone should contribute to local authority spending – against the electoral fears of backbenchers? The country is about to learn the answer. With the voice of Ribbles Valley ringing in the ears of the Tories, the poll tax is doomed. Panic makes for bad policy. What is needed, instead, is a comprehensive reform, one that relates the structure and functions of local government to its finance. If change is to be made over night, it should not be the excuse for avoiding thorough reform thereafter. It is not evident that great haste is even desirable. The poll tax is a disaster. It is true, but the government can always increase the bribe to make it less so. The only immediate alternative, consistent with a measure of local autonomy, is a return to the old domestic rates, which would create its own problems. Another temporary possibility would be to transfer all of local authority finance onto the central government. But this would abolish local autonomy, a change that could too easily become permanent. Nevertheless, the poll tax is now seen to have two overwhelming disadvantages: its unpopularity and its unworkability. Local authorities expect, for example, that only 91 per cent of those liable will pay the community charge for the current financial year, as against 98 per cent for the old domestic rates. Yet, however unpopular the poll tax is, moving back to the rates could be almost as bad. A return to the rates would either mean much larger bills than in 1989-90, which would create a new class of losers (many of whom vote Conservative), or a greater Treasury contribution.

Bigger bribes

If it would be necessary to increase the Treasury's bribe merely to massage a return to the rates, why not increase the bribe to the poll tax? One answer is that the bribe would probably have to be bigger. Suppose, for example, that the average poll tax were to be reduced to £200. This would cost the Treasury about £7bn, equivalent to a bit more than 3p in the pound on the basic rate of income tax.

The obvious way to achieve greater freedom of manoeuvre would be to end the uniform business rate. But the idea of a uniform business rate remains attractive. If local authorities

are to be allowed to levy business rates it should be over and above the uniform business rate and only within centrally determined limits. The overwhelming disadvantage with all such tinkering, however, is that this is what it is: tinkering. The fundamental problem of local finance is the contradiction between the scale of its responsibilities, on the one hand, and of its autonomous financial means, on the other. In 1991-92, for example, local authorities are expected by the government to spend £61.4bn, or more than £1,000 per head of the population, of which their own sources of revenue are to contribute a mere 22 per cent.

Local political choices

The difficulty to which this contrast attests is, as David King points out in a recent paper for the Institute of Economic Affairs, that "selective tinkering is not to be recommended for local government is for". Are they agents of national purposes, in which cases their revenue might as well come from the Treasury, or are they to be used to local political choices, in which case they need sources of revenue commensurate with their needs? More precisely, for what purposes are local authorities to be agents and for what purposes are they to be autonomous? If, for example, local authorities were to continue to do what they now do, but autonomously, then a local income tax would be inescapable. Local income taxes exist in all industrial countries that enjoy a high degree of local autonomy. But if local authorities are to levy income taxes, they need to become both more representative – by introducing proportional representation – and more competent.

In short, the combination of still more Treasury support with a return to the domestic rates may be the least bad palliative in the short term. But it does not represent a solution to the underlying difficulty. What the government must decide, is local government for? How should it be structured to deliver the services for which it is responsible? How then can it be financed to meet its responsibilities? We shall return to these questions shortly. But the government must stop putting the financial cart before the horse. Otherwise, the reform of local government will never make progress.

Albania's way forward

ALBANIA needs help. The Italian government's decision to consider repatriating thousands of young, discontented Albanians is understandable, but it could bring Albania closer to bloodshed or anarchy. President Ramiz Alia, leader of the ruling Albanian Party of Labour (APL), could prevent this by the Conference on Security and Co-operation in Europe, and to forge links with the EC and the International Monetary Fund, the west has considerable leverage over this small country of 3.2m people. The leverage should be used.

The EC should start drawing up a political and economic agenda for Albania's future. First, the elections should be postponed. It is better to hold fair elections later than a rigged election soon. In the meantime, the APL should be encouraged to begin round-table talks with the opposition. They should cover the withdrawal of party cells from the workplace, the depoliticisation of the media, the judiciary, the security forces and the disbanding of the *Sigurimi*, or secret police.

Political agenda

The EC should also help the Albanians draw up a long-term economic programme aimed at revitalising agriculture, modernising the country's chrome, copper and oil industries, and introducing monetary stability. The younger generation can be given a stake in the reforms through modern management techniques. Some western governments may balk at these proposals on the grounds that aid will either be wasted or smack of interventionism. Yet conditionality is working in Poland and beginning to work in Bulgaria, which is now developing its fragile, democratic institutions. It is precisely because Albania is such a small country that aid may work there. Mr Alia should be told in no uncertain terms that the price of such aid is reform. It will not be given to prop up the APL.

Slim chances

The APL has capitalised upon this disarray. In the campaign for elections, scheduled for March 31, it has told the conservative peasantry and local party cells that it alone can solve the country's problems. In these circumstances, the chances for genuine reform look slim and are unlikely to improve if the APL wins.

There is no reason, however, why Albania should be left to its misery. Mr Alia has already appealed to the west for aid to modernise an obsolescent industrial infrastructure and improve living standards. The

When the government decided to privatise Britain's telecommunications, water, electricity and gas utilities, there was no manifesto commitment to hand enormous power over large tracts of the British economy to four unelected officials. Yet that is precisely what Thatcherism has given the four regulators charged with protecting consumer interests in the wake of privatisation of the main UK utilities.

Just in the past few weeks: ● Mr James McKinnon, director-general of the Office of Gas Supply, has become embroiled in a legal row with British Gas over its plans for 35 per cent increases in its prices to power stations, while pursuing a campaign to reduce the gas utility's share of the main industrial gas market by about 30 per cent.

● Sir Bryan Carsberg, his counterpart at the Office of Telecommunications (OfTel), was one of the main authors of the government's plans for a sweeping reform of the telecommunications industry, published last week. It will be his task to implement an ambitious attempt to nurture competition in an industry traditionally dominated by a monopoly supplier.

● Professor Stephen Littlechild at the Office of Electricity Regulation (OfReg) has just overseen the creation of the one of the most competitive wholesale electricity markets in the world in the shape of the so-called "pool" from which distributors will purchase their supplies.

● And at the Office of Water Services (Ofwat), Mr Ian Byatt is completing his consultations over possible changes to the way people pay for their water. This has involved circulating leaflets to more than 17m homes which will be affected by what could be the most radical change in the industry for decades.

So pervasive has the power of this quartet of former accountants and economists become that their performance has become an issue in itself. Together they hold sway over industries with a combined staff of just 130, but have not hesitated to take on one of Europe's largest companies with more than 240,000 employees. Senior BT executives view him as the greatest threat to their company's commercial future.

But Sir Bryan's assessment of the qualities required by a regulator is simple – "cussed determination". If he had been less determined those who followed would have had a much tougher time. OfTel's development also exemplifies why once a regulator becomes involved in an industry there is a logic for regulation to spread wider and deeper.

The British regulatory system is based on price controls. All the regulators operate a formula linked to the retail price index. With price rises capped below the rate of inflation, a company can only raise prices through cutting costs and improving efficiency.

It sounds simple enough in theory. But in reality, the regulators have been drawn into monitoring their charges' behaviour in much more detail, and from a broader set of perspectives. From their initial concern with costs and prices they have had to widen their reach into issues to do with quality of service.

The point is that, as at least one of the regulators has discovered, issues of price and quality cannot be separated: one way for a price-capped company to cut costs on its regulated services is to cut corners on quality of service. When BT was privatised in 1984, its licence made little mention of quality standards. And although Sir Bryan denies that OfTel actually neglected service standards during its early days, BT's service deteriorated, culminating in a quality crisis in 1987.

Since privatising BT, however, the government has laid noticeably greater emphasis on standards of service for the other utilities it has loaded. This creates the potential for confusion. In the water industry, for example, regulation of quality – defined in environmental terms and carried out by the National Rivers Authority and the Ministry of Agriculture – is as important a consideration as economic regulation of costs.

Charles Leadbeater and David Thomas on the regulators who will determine the future of Britain's privatised utilities

Unequal struggle over power

clians implemented privatisation in the first place, characterised by messy compromises and confusion about the goals of privatisation policy.

Most of the utilities floated so far have been privatised as highly profitable monopolies – partly because ministers were keen to earn the maximum reward for the exchequer from the flotations and partly because the managers of the utilities lobbied hard for their corporations to be privatised intact.

As a result, there was limited scope for more ambitious proposals designed to increase competition, say, by splitting up BT or British Gas into smaller competing units. The emergence of privatised monopolies created the need for regulation as a substitute for competitive disciplines.

Each of the regulators has two core tasks: to prevent the monopolies from abusing their power over consumers and to explore and encourage competition which promotes consumer choice.

In each case, however, the regulator's ability to command his particular arena has turned as much on personality as on policy. This has been pre-eminently so with Sir Bryan Carsberg. Controlling a staff of just 130, he has not hesitated to take on one of Europe's largest companies with more than 240,000 employees. Senior BT executives view him as the greatest threat to their company's commercial future.

But Sir Bryan's assessment of the qualities required by a regulator is simple – "cussed determination". If he had been less determined those who followed would have had a much tougher time. OfTel's development also exemplifies why once a regulator becomes involved in an industry there is a logic for regulation to spread wider and deeper.

The British regulatory system is based on price controls. All the regulators operate a formula linked to the retail price index. With price rises capped below the rate of inflation, a company can only raise prices through cutting costs and improving efficiency.

It sounds simple enough in theory. But in reality, the regulators have been drawn into monitoring their charges' behaviour in much more detail, and from a broader set of perspectives. From their initial concern with costs and prices they have had to widen their reach into issues to do with quality of service.

The point is that, as at least one of the regulators has discovered, issues of price and quality cannot be separated: one way for a price-capped company to cut costs on its regulated services is to cut corners on quality of service. When BT was privatised in 1984, its licence made little mention of quality standards. And although Sir Bryan denies that OfTel actually neglected service standards during its early days, BT's service deteriorated, culminating in a quality crisis in 1987.

Since privatising BT, however, the government has laid noticeably greater emphasis on standards of service for the other utilities it has loaded. This creates the potential for confusion. In the water industry, for example, regulation of quality – defined in environmental terms and carried out by the National Rivers Authority and the Ministry of Agriculture – is as important a consideration as economic regulation of costs.

But the two priorities tend to pull in opposite directions: while economic regulation is intended to create incentives for companies to reduce costs, environmental regulations invariably add to them. The water companies stress that environmental costs must be taken into account when caps on their prices are set. But who is ultimately to strike the balance between environmental regulation and fair costs?

The clear danger is that the regulators might become so involved in determining questions of costs, prices and quality that they would almost be managing "their" utilities.

Nor can the regulators look at prices of individual services in isolation. Once the price of one service is fixed, companies will vary other prices to compensate. OfTel has been concerned of late, for example, about prices BT charges for the highly profitable international services. Last week's white paper on telecommunications announced that for the first time, international prices would be included in the overall cap on BT's prices. This extends the coverage of price controls on BT's business to 80 per cent of its revenues from 55 per cent in 1984, and because of the sheer complexity of the arguments involved, the regulator has become involved in examining the detailed structure of charges for different services.

Mr Iain Vallance, BT's chairman, complains that the development of a minute form of regulation in telecommunications was never envisaged at the outset. Sir Bryan disagrees: "There never was a commitment to regulation with a light touch."

Developments at Ofgas also testify to the difficulty of pursuing a lightly regulated regime. Critics point out that Ofgas is now deeply involved in the industrial gas market, precisely the segment of the industry that was supposed to be free of regulation.

Mr McKinnon, pointing out that his staff has declined from 25 to 20, is scathing about the charge that he has extended his remit: "If I had exceeded my powers British Gas would have had me in judicial review proceedings at the drop of a hat."

The measures to spur competition in the industrial gas market are intended to be temporary, he stresses. Mr McKinnon says he is a "surrogate competitor" who will fade into the background once real competitors emerge.

The most sanguine of all the regulators is Professor Stephen Littlechild at the Office of Electricity Regulation (OfReg), who before BT was privatised devised the pricing formula subsequently adopted by all the regulators.

The decision to split the old Central Electricity Generating Board into two generators, National Power and RSCG, has helped to create the grounds for competition in the industry around a wholesale market for electricity supplies called "the pool". Prof Littlechild says there have been no problems in eliciting information from the companies or in persuading them to accept competition. There is no need for a major battle between regulators and the companies, he says.

But it is early days for competition in electricity. Many executives in the regional electricity companies and among the new group of independent generators that has sprung up, complain that the National Power and RSCG are manipulating the market. Some are certain that Prof Littlechild will become more deeply involved in the industry to nurture the first flowering of competition.

Sir Bryan Carsberg shares scepticism about how quickly regulators will be able to withdraw. The telecommunications white paper, he says, marked a shift from managed competition to a more open market. Yet OfReg's role, in the short term at least, will expand considerably. He says: "There may be a time when competition is so firmly established that regulation can rather away. But that is a long way off."

It seems increasingly likely that the system of regulation will be a permanent feature of the privatised utilities. They are, after all, of pivotal importance to the performance of the economy as a whole. Politicians will be unwilling to give up all influence over such basic services as water, telephone services and electricity. All the utilities are likely to retain elements of monopoly, which means consumers will have to be protected. The evidence of the US airline industry, for instance, is that deregulation can all too quickly lead to a concentration of power in a few corporate hands.

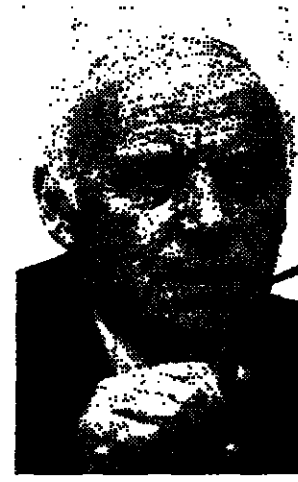
The regulators have carved out their own power bases. They will be difficult to dislodge. The prospect of a decade of re-regulation of important parts of the UK economy provokes cries of complaint from free marketeers.

Dr Cenzo Veljanowski, director of research at the Institute of Economic Affairs, says the upshot of policies introduced by a free market government has been the creation of a new layer of unaccountable bureaucrats. Privatisation has shifted the utilities from state ownership to state regulation.

If the current system of regulation does indeed survive into the next century, the big question will be how to monitor and improve it. At present, the regulators are accountable only to secretaries of state; the way they operate is far from transparent, and often secretive. They sometimes seem to be making up the rules as they go along. Who is to regulate the regulators?



SIR BRYAN CARSBERG: OFTEL. Aged 52, the director general of the Office of Telecommunications was the pioneer regulator. A former professor of accountancy at the LSE and a marathon runner, Sir Bryan topped his year in his first accountancy exams. When he started his own practice he was told to wait six months to install a telephone. He combines a prodigious appetite for detail with a relentless stamina and determination.



JAMES MCKINNON: OFGAS. Aged 60, the director general of the Office of Gas Supply carries the scars of repeated public clashes with British Gas. He was appointed to the post at Ofgas after being group finance director of the Imperial Group. Born in Paisley, Scotland, McKinnon studied accountancy in Glasgow before moving into a series of finance jobs in industry. He is a former editorial adviser to the Ministry of Defence's audit committee.



STEPHEN LITTLECHILD: OFREG. Aged 47, the director general of the Office of Electricity Supply holds sway over an industry in the midst of privatisation. As a professor of commerce and head of the department of industrial economics at Birmingham University in the early 1980s, he was largely responsible for drawing up the pricing formula which has been adopted for all the utilities.



IAN BYATT: OFWAT. Aged 59, the director general of the Office of Water Services is a former Treasury economist with a penchant for Barbara Hepworth prints. Mr Byatt spent several years lecturing before joining the Department of Education and Science as its economic adviser in 1987. Between 1978 and 1989 he played a central role in the Thatcher governments' reforms of economic policy as deputy chief economic adviser at the Treasury.

Steward's account

■ No man is a hero to his valet, they say, but John Major seems to be an exception. "I am not surprised by his election as prime minister," says Moses Dewa who was Major's steward in his two-bedroom flat when, as a 23-year-old, he arrived in Nigeria in December 1966 to work for Standard Chartered's branch in the plateau city of Jos.

It seems the future premier lived blithely during his five-month stay at 7 Club Road, in a tour cut short by severe injury to his legs when the friend's car he was riding in crashed into a ditch. From the start he "displayed the spirit of a servant, of one willing to serve mankind".

Dewa – still in Jos, but now working as a bank clerk – recalls that Major's first evening meal there included potatoes, beans and carrots. He rose at 6.30 each day, and went to work in a brown suit.

Apart from daily excursions to the sports fields at the Plateau Club, Major didn't go out very often. "He'd rather sit quietly in the living room reading novels or in his bedroom listening to foreign news on his radio," the ex-steward reports in an interview with Nigeria's Guardian newspaper.

The bookcase in the living room stocked novels and texts on economics, banking and finance, as no doubt bedevilled a non-smoking teetotaler who "never complained about anything" and showed signs of stress or ill-temper.

Searchers after the salacious will be disappointed. "I didn't see any lady or girl visiting," Dewa says, dismissing any hint of what the paper calls a "conjugal relationship" with the "swarms of ladies who invaded Jos in those days".

The only hint of disapproval in the account is that the premier-to-be didn't go to church and was never seen praying or reading a bible. All of which prompts a

thought that historically-minded readers might care to advise on. Has any other head of state anywhere ever led such an unimpressive life as Dewa's ex-employer?

Rare event

■ John Major said his speech in Bonn on Monday was the first made by a British prime minister in Germany since unification. But there must have been at least 10 successive British prime ministers who never went to Germany at all while in office, let alone thumped the tub there.

Disraeli attended the Congress of Berlin in 1878; there was a rumour that Neville Chamberlain went to see Hitler in 1938. It was also the first time that Chamberlain had been in an aircraft. No wonder his visit caused such a stir.

Glasgow calling

■ Having conquered Scotland, is Jimmy Gordon, the 54-year-old boss of Independent Radio Clyde, about to take on the rest of the United Kingdom? One of the best-known managers in commercial radio, he was still insisting yesterday that his Glasgow-based Radio Clyde had merged with Edinburgh's Radio Forth. But it doesn't take a financial analyst to see who will be calling the shots from now on.

After nearly two decades in the business, Gordon controls commercial stations in all Scotland's main cities and is ready for bigger things. A small Glaswegian with boundless energy, he is the man Lord Hanson turned to when he wanted to set up his own Melody radio station in London. Along with Capital, Clyde is one of a handful of well-managed companies in a fragmented industry, and



"... AND he's a virgin."

with its strong balance sheet it is an obvious contender for a nationwide commercial radio licence. Applications have to be in by next month.

But would Gordon want one? He says his local radio stations have better ratings than the BBC network already, which he doesn't think would change even if he got a licence.

On the other hand, giving the Scots a national licence is not going to lose the government any votes. Moreover, Gordon himself might be underestimating the potential financial rewards.

OBSERVER

financial year on March 24. The stock exchange assures me that the date has nothing to do with the end of the fox-hunting season. Rather, it dates back to Lady Day, on March 25. Until 1752, the day commemorating the annunciation of the Virgin Mary, marked the legal beginning of the year. Hence firms used to make up their accounts to the day before.

But the stock exchange really did not get going until 20 years later and another 40 years went by before its first rules and conditions were enshrined in its settlement deed. Surely time for a change.

Varied menu

■ Who are the world's slickest eaters? The nation with the fairest claim to the title are the French, according to a US-based consultancy which keeps watch on worldwide pay and living costs for multi-national employers.

Its latest review details nine countries' typical household spending on different kinds of food, distinguishing dieticians' horrors such as fats and red meats from more approved items such as fruits, vegetables, fish and poultry.

In France horrors account for 33 per cent, and approved for 26. So, taking other kinds of food as neutral, the French have a 7 percentage-point preponderance of sickly over healthier items.

Belgium and the US tie for second place with 6. Then come the British with 5, Canadians 4, Germans 2, and Dutch 1.

In the remaining pair of nations, approved outweigh horrors – in Australia by 1 percentage point, but in Japan by no fewer than 12.

Any message?

■ Notice in English on a Paris hotel's reception desk: All our guests bring happiness – some by coming, others by going.

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INSIDE

De Beers suffers 16% decline in profits

Recession has taken the sparkle off results at De Beers and its overseas arm, De Beers Centenary. The companies, which dominate the world diamond industry, yesterday announced a 16 per cent decline in 1990. However, De Beers chairman Julian Ogilvie Thompson (left) said the results were in line with the expectations of a quiet year following the "quite phenomenal" growth of the second half of the 1980s. Page 20

'Allo, 'allo

Three UK insurers have launched ventures in recent months in France, one of continental Europe's most competitive markets. The expansionary moves of Sturge Holdings, Commercial Union and General Accident show a marked contrast to expensive retreats announced last year by their competitors. Richard Lapper looks at their motives for expansion. Page 25

Hilldown treatment pays off

Hilldown Holdings unleashed a whirlwind on Canada Packers, the Toronto-based food processor, when it bought a majority stake in the group last year. Now it is set to reap the profits of its famed "turn-around treatment". Canada Packers' ability to tackle new markets and products has greatly improved, and Hilldown has brought an edge to the company which it never had as a stodgy, family-controlled concern. See also Simon reports on Hilldown's plans for Canada Packers. Page 22

Step forward for Euroquote

This week saw a small, but significant, step forward for Euroquote, the Europe-wide share trading system. General Electric Information Systems has won the contract to develop a price-dissemination system for the 12 EC stock markets. But the diversity of European bourses means that much of the information needed to feed the programme does not yet exist in a compatible form. Richard Waters reports. Page 24

Glynwed falls 25%

Glynwed International, the Birmingham-based engineering group, is standing firm on dividend payments, despite a near-25 per cent fall in pre-tax profits to the lowest level since 1987. Gareth Davies (left), chairman, offered shareholders little solace for the current year, observing that it was difficult to give a clear indication of prospects. Paul Cheeseright reports. Page 25

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Chief price changes yesterday

FRANKFURT (DEM)	PARIS (FF)
Rhine	885 + 41
Siemens	880 + 17.5
Mercedes	431 + 14
St. Charles	719 + 11
Telecom	843 + 22
Telecom	1053 + 47
NEW YORK (DOLLARS)	TOKYO (YEN)
Rhine	949 + 100
Siemens	880 + 78
Mercedes	850 + 39
St. Charles	855 + 57
Telecom	1440 + 140
Telecom	955 + 100

New York prices at 12.35.

LONDON (Pounds)	DOLLARS
ADT	65 + 7
Amgen	127 + 18
Amgen	271 + 33
Amgen	209 + 10
Amgen	41 + 8
Amgen	112 + 5
Amgen	617 + 13
Amgen	158 + 18
Amgen	157 + 9
Amgen	142 + 50

**Marine Midland \$295m in red
J. Capel incurs £30m deficit**

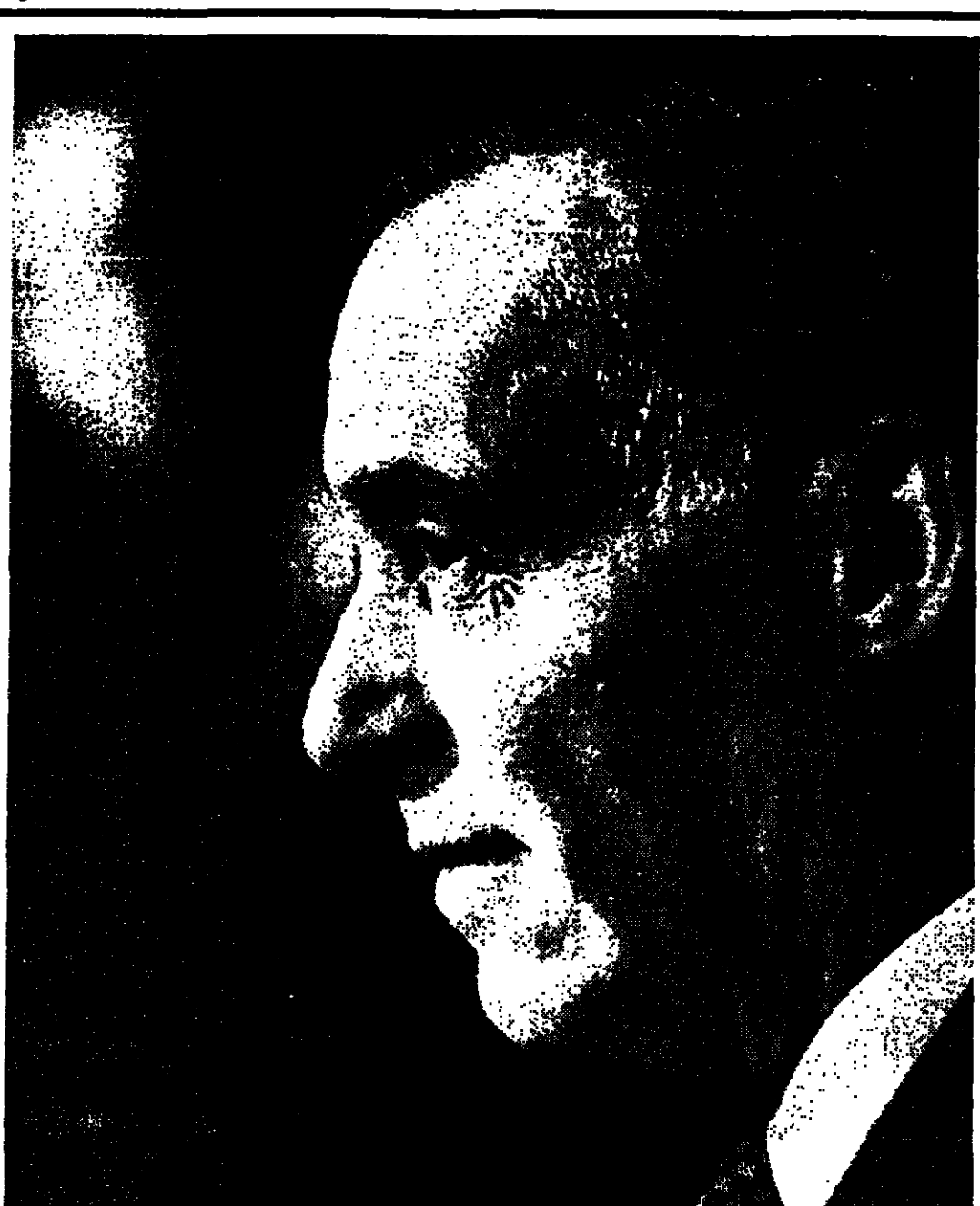
HK Bank 'disappoints' with 35% fall

By John Elliott in Hong Kong

THE Hongkong and Shanghai Banking Corporation yesterday reported a 35 per cent fall in profits to HK\$3.02bn (\$387m) - after tax and transfers to secret reserves - for 1990. William Purves, the chairman, acknowledged the results were "very disappointing and unsatisfactory". This compares with HK\$4.77bn profits in 1989 and is in line with market expectations. The bank warned earlier this year of mounting losses and heavy debt provisions in overseas subsidiaries such as James Capel in the UK, Marine Midland in the US, and an Australian subsidiary.

There have also been some bad debt provisions for projects in China. Mr Purves said that the outlook for the current year was "very uncertain" because of international economic problems as well as the bank's own situation. But neither he nor the bank's board planned to make top-level management changes. "The board has discussed the situation and have full confidence in the top management," he declared. It was "not comparing apples with apples", Mr Purves said, to relate the bank's decline with the profit levels and halved dividend announced last week by Midland Bank of the UK, whose chairman and chief executive, Sir Kit McMahon, had resigned.

The Hongkong has a 14.9 per cent interest in the Midland and last December the two banks called off merger plans. Mr Purves said yesterday that his board was "not turning its back on Europe", but there was "nothing cooking at present" on possible new mergers and alliances. To try to correct its profits slide, the Hongkong Bank has "tightened up where we can" and increased its control of overseas. Credit quality was being improved and there had been management changes in the US, Australia and elsewhere. The bank's profits were substantial enough to absorb losses and debt provisions of its subsidiaries and to fund undisclosed transfers to its secret reserves. The most serious problem is in New York-based Marine Midland.



Rodney Galpin: there will be no early return to the bank's previous dividend levels

Standard Chartered cuts payout to 7.5p

By David Barchard in London

STANDARD Chartered yesterday became the second UK clearing bank to reduce its dividend. It cut its second-half payment from 25p to 7.5p reflecting a disappointing trading performance in 1990. This brought the full dividend per share for the year down from 35p in 1989 to 20p. Along with the dividend announcement, chairman and chief executive Rodney Galpin unveiled trading profits of £358m (\$668m) before debt provisions, down 10 per cent from £397m. Mr Galpin indicated there would be no early return to the bank's previous dividend levels, which were set in 1986. The directors would pursue a progressive dividend policy, he said, linked to the earnings performance of the group. The cut follows a similar announcement by the Midland Bank last week. Standard Chartered had to dip into its reserves for £13m to pay the dividend despite the cut. This compared favourably with 1989 when it withdrew £13m. The bank said the fall in trading profits was largely caused by exchange rate changes and the fall of the US dollar value of much of the group's overseas business last year. The bank's total tax charge was £118m, up from £105.2m in 1989. The charge was high in relation to profits, largely because, due to insufficient UK profits, the bank could not offset all the

Suez proposes to sell up to FFr6bn of assets this year

By William Dawkins in Paris

COMPAGNIE Financière de Suez, the French banking, industrial and insurance conglomerate, is planning to sell between FFr5bn (\$500m) and FFr6bn of assets, representing around a tenth of its FFr60bn portfolio, this year. Mr Gérard Worms, the group's new chairman, said the disposals were needed to restore its margin of manoeuvre in the recession. Société Générale de Belgique, the sprawling Belgian industrial group which is Suez's biggest holding, must further cut its debts by between FFr15bn (\$350m) and FFr20bn this year, he added. This is on top of the FFr17bn of La Générale disposals last year, including most of Fabrique Nationale Herstal, the Belgian arms maker and stakes in two Belgian insurance companies, a French construction group and in Alcatel Alsthom, the French telecommunications and engineering company. Mr Worms emphasised there were no plans to sell La Générale's controlling stakes in Accor-Union Minière, a non-ferrous metals company and Cimentaires CBR, the cement producer. Speculation that La Générale might sell is believed to have caused a recent rise in both companies' share prices. However, he gave no clue as to which La Générale assets were up for sale. Suez raised FFr1bn towards Mr Worms' target earlier this year, with the sale of a 45 per cent of Banque Parisienne de Crédit to

Esselte may make change to its ownership structure

By John Burton in Stockholm

ESSELTE, the Swedish office products group, is expected to announce today a change in its ownership structure after trading in its shares was suspended on the Stockholm stock exchange yesterday. Esselte's main shareholder, the Swedish property and investment company Mobilia, with an equity interest of 37 per cent and a 44 per cent voting stake, filed for bankruptcy in December. Mobilia's administrator, Mr Kent Hagglund, has been seeking a buyer for the company's holding in Esselte since then. Two of Mobilia's creditors, Nordbanken and Gota Bank, earlier took half of its Esselte shares as collateral for outstanding loans, but they are understood to

Générale de Banque, a Belgian bank in which La Générale is the main shareholder, with a 20 per cent stake. Officials cannot reveal the candidates for possible sales, though Mr Worms has previously said that a "rigorous management of assets" was needed at Compagnie La Hénin, a property and industrial holding subsidiary, as well as at La Générale. La Hénin made a FFr71m net loss last year, mainly due to the poor performances of its US property division, Cegep, of Labeyrie, its foie gras and smoked salmon subsidiary and of Salins du Midi, a salt producer which is also France's largest wine-maker. All of these are likely to come under scrutiny.

LVMH settles Lanson disposal

By William Dawkins in Paris

MORET HENNESSY-Louis Vuitton (LVMH), the French drinks and luxury goods group, yesterday confirmed the sale of its Lanson champagne brand to a joint venture formed by Marne & Champagne of France and Allied Lyons of the UK. The sale, understood to be for about FFr1.6bn (\$301m), also includes Massé, a much smaller champagne brand controlled by Lanson, a stock of 28m bottles and Lanson's cellars and buildings. Lanson, with a staff of 250, sold 7.4m bottles last year, while Massé sold 800,000.

This compares with the roughly 10m bottles sold last year by Marne & Champagne, a family-controlled, private company. Marne will become the world's second-largest champagne producer after LVMH. It is currently the world's fifth-largest producer.

The deal will conclude the widest reorganisation in the champagne industry for many years when it is finalised at the end of May.

Marne & Champagne is acting in a joint venture with Hiram Walker-Allied Vintners, the wine and spirits division of Allied Lyons. The joint venture was advised by the Paris office of Baring Brothers, the UK merchant bank.

The British company is already the biggest foreign distributor of Lanson, which it sells in the UK, Hong Kong and Italy. Hiram Walker-Allied Vintners will get distribution rights for the world outside of France and Switzerland. Marne & Champagne will handle distribution in those two countries.

After dilution for a convertible loan by Crédit Lyonnais, the French state-owned bank, Marne will own 76 per cent of the joint venture. The remaining 24 per cent will be held by the UK group.

LVMH bought Lanson, Massé and an associated brand, Pommery, for FFr3.1bn only three months ago from BSN, the leading French food and drink group. LVMH wanted to recoup some of the cost, keep Pommery and the 500 hectares of prime vineyard that belonged to the three brands. Of that total, 210 hectares belonged to Lanson.

Marne & Champagne is controlled by its 90-year-old founder, Mr Gaston Burtin, and owns 150 relatively little-known brands, including Alfred Rothschild, Geismann and Gauthier. A large part of its output also goes to making own-label champagne for supermarkets and restaurants.

This announcement appears as a matter of record only.

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INTERNATIONAL COMPANIES AND FINANCE

Procordia posts profits

Town 41% at SKr2.08bn

John Burton in Stockholm

OCCORDIA, the Swedish pharmaceutical and food company, yesterday reported that its 1990 profits after financial charges tumbled by 41 per cent to SKr2.08bn (\$385m), while sales rose 11 per cent to SKr2.7bn. A dividend of SKr2.85 per share from about 2.70 was proposed.

With the result, which was foreseen, the company was affected by large restructuring costs of SKr1.38bn resulting from the sale of its former Swedish subsidiary, the former Swedish food company, and functional, the food division of its Ivo, and Pharmacia, the

pharmaceutical company controlled by the Swedish car maker. Operating profits excluding the merger costs remained unchanged at SKr2.2bn against the 1989 pro forma results. Procordia predicted that profits in 1991 would exceed the 1989 results as rationalisation measures reduced costs.

The restructuring programme is expected to be completed by the end of 1992 and reduce annual costs by SKr1.5bn. But Procordia's pre-tax profit fell to SKr1.1bn, a 68 per cent decline, once extraordinary items were included.

Extraordinary costs amounted to SKr1.18bn, including SKr478m in additional merger costs and SKr422m for the closure of Procordia's engineering operations. Extraordinary income amounted to SKr215m with the sale of shares in the Liber publishing company.

The Procordia food group had an 11 per cent increase in operating profits to SKr2.04bn, while sales climbed by 7 per cent to SKr1.97bn. Operating profits in the health care group fell by 22 per cent to SKr1.4bn, although sales rose by 10 per cent to SKr12.88bn.

Iuhtamäki climbs to FM196m

Enrique Tessieri in Helsinki

IUHTAMÄKI, the Finnish pharmaceutical, packaging and chemicals group, has reported an 11 per cent increase in profits before old provisions and taxes in 1990 to FM196m (US\$53.2m) from FM176m a year earlier.

Consolidated sales also advanced by 5 per cent to FM5.77bn from FM5.48bn, a change operating earnings fell to 6.6 per cent to FM400m.

A third of the company's new products are generated in the US, where, however, Mr Timo Peltola, the

negative impact. The group estimates that consolidated sales for 1991 will increase to FM6.3bn and that profitability will continue to increase despite a temporary decline during the first half of this year due to the timing of certain marketing operations.

Iuhtamäki's confectionery division, which accounts for around half of consolidated sales, developed favourably with profit targets being met. Earnings per share fell to FM2.47 from FM2.32. A FM2.60 dividend has been proposed.

• United Paper Mills, the for-

est division of Repola, Finland's largest quoted group, will invest FM1.8bn at its Jamskoski mill in central Finland installing a new magazine printing (SC) paper machine with an annual capacity of 300,000 tonnes.

Apart from greater demand for SC magazine paper, UPM added that the new paper machine will also help consolidate the company's role as one of the biggest global producers of SC magazine paper. The new paper machine at Jamskoski will increase UPM's SC paper capacity to over 1m tonnes per year.

Wimpey holds payout despite slide

Andrew Taylor, Construction Correspondent

RE-TAX profits of Wimpey, Britain's second largest housebuilder, fell by more than two-thirds last year to £43.3m (US\$69.1m) from £134.7m in 1989. But the group is to hold the vote on dividend at 10.5p, transferring £26m from reserves to

Bigg Taylor Woodrow, another large UK construction company, on Monday revealed pre-tax profits last year down 28 per cent to £23.4m. The re-

Profits attributable to Wimpey shareholders fell from £21m in 1989 to £4m, after an extraordinary provision of £20m against discontinued land and commercial property businesses in the US. Separate provisions of £22m, taken as exceptional items above the line, were made against housing sites in the UK and US.

They were partially offset by £19m in profits from the sale of two UK housing sites in Scotland and Sussex.

Housing and contracting profits last year fell by 56 per cent. The number of homes sold in the UK fell from 7,091 in 1989 to 6,263. Average prices rose from £66,500 to £77,200. Margins, however, were sharply down.

Commercial property profits rose from £13m to £18m. The group's UK commercial property portfolio fell in value last year from about £356m to £320m. Profits from the minerals division, which includes aggregates in the UK and US, declined from £29m to £26m. Lex, Page 16

Further changes in Mondadori management

By John Wyles in Rome



Silvio Berlusconi: television entrepreneur

MONDADORI, Italy's largest publishing group, yesterday faced its third top management change in little more than 16 months when Mr Luca Formenton was elected president of Amef, the holding company which controls the publisher's ordinary stock.

His election will be followed by a transfer of management control from Mr Carlo De Benedetti's holding company, CIR, to the families of Formenton and Mondadori in alliance with Mr Silvio Berlusconi, the television entrepreneur.

Mr De Benedetti regained management control of Mondadori last July after the court-ordered sequestration of the Formenton family's 25.7 per cent stake in Amef, having lost it the previous February.

The Formenton come-back follows a Milan court ruling against the validity of a December 1989 agreement to sell its Amef shareholding to Mr De Benedetti. This led to a subsequent court decision earlier this month releasing the shares from sequestration and enabling the Formenton alliance to place its man in the presidency at a board meeting yesterday.

Four court-appointed directors have resigned from the Mondadori board following the recent judgments. The board is scheduled to meet on March 27 when it may call an annual meeting to elect a new majority reflecting the changes in control of Amef.

Nedlloyd receives fresh ideas on board structure

By Ronald van de Krol in Amsterdam

NEDLLOYD, the Dutch transport and energy group, said yesterday that it had received new proposals on the issue of board representation from Mr Torstein Hagen, the Norwegian investor, and that it will respond to his suggestions at tomorrow's extraordinary shareholders' meeting.

The company said that Mr Hagen is proposing that he be appointed to Nedlloyd's supervisory board.

He also wants to become a member of a new

sub-committee that will be charged with monitoring progress on the execution of a restructuring plan which he put forward for the group in January.

Under his new proposal, a total of three new seats would be created on the supervisory board.

In a previous proposal, rejected by Nedlloyd last month, he had called for five new board members.

Mr Hagen controls 23 per cent of Nedlloyd's share capital

and claims a majority of shareholders back his restructuring plan.

He could not be reached for comment yesterday.

Nedlloyd's management has called the shareholders' meeting to lay out its future strategy.

Nedlloyd and Mr Hagen agreed that the group's two core activities should be shipping and land transport, but the two sides disagree on the speed with which peripheral activities should be sold.

East Asiatic halves dividend

By Hilary Barnes in Copenhagen

THE EAST ASIATIC Company, the trading and transport group, has halved the annual dividend to Dkr5 a share after a fall in pre-tax profits to Dkr655m (\$105m) last year, compared with Dkr941m in the previous 12 months.

The company said it was "a generally unsatisfactory result".

The group, with many activities in the dollar and dollar-related currencies, was badly hit by the decline in the value of the dollar against the krona.

Sales in krona fell from Dkr17.73bn to Dkr15.81bn, but in dollar terms they were slightly up, from \$2.68bn to \$2.74bn.

The group also announced

an important management change. Mr Henning Sparsoe, the chief general manager, is to become chairman of the supervisory board, following the retirement of Mr T. Woldike Schmidt, the chairman.

Mr Sparsoe will continue to carry out some of the functions of the chief general manager and no new chief general manager will be appointed to the board of directors.

Group operating profits fell from Dkr1.06bn to Dkr452m. All seven of the group's divisions reported a decline in sales, including a fall from Dkr1.21bn to Dkr1.06bn for the graphics division and from Dkr695m to Dkr556m in the transport division, which

includes extensive liner shipping operations.

The pre-tax results, as a return on equity, fell from 28 per cent to 15.7 per cent. Net profits, down from Dkr438m to Dkr221m, represented a return on equity of 9.5 per cent compared with 14.0 per cent in 1989.

Earnings per share fell from Dkr23.18 to Dkr15.01.

The group budgets for a better year in 1991, but also points out that its 1990 forecasts were very wide of the mark.

The balance sheet shows an increase in total assets to Dkr14.89bn from Dkr14.06bn but equity capital slipped to Dkr3.85bn from Dkr4.15bn or to 26.2 per cent from 29.8 per cent of assets.

Ambroveneto advances by 19% and raises dividend

By Hilary Barnes in Milan

BANCO Ambrosiano Veneto (Ambroveneto) yesterday reported that net profit last year rose 19 per cent to L170bn (\$144m), compared with L143bn in the previous 12 months. AP-DJ reports from Milan.

Ambroveneto also said its board of directors would propose raising the dividend payment by L20 to L140 for ordinary shares and to L180 for preferred shares.

On the basis of continuing operations, net profit was up 30 per cent.

The 1989 earnings included

L13bn in dividend payments from Banca Cattolica del Veneto before its merger with Nuovo Banco Ambrosiano.

Ambroveneto attributed its strong earnings report to an 11 per cent increase in deposits from clients to L15,900bn from L14,535bn last year.

It also reported a 13 per cent increase in funds managed, to L13,854bn from L12,712bn.

Client loans were also up 16.7 per cent to L13,746bn, from L11,779bn.

Gross operating profit rose 14.3 per cent to L560bn, from L490bn a year ago.

French bank in Swiss venture

By Hilary Barnes in Geneva

BANQUE Duménil-Leblé, the French investment bank controlled by Mr Carlo De Benedetti's Cerus group, is to team up with Mr Alain Duménil, the financier who built up the bank before selling out to Cerus, writes George Graham.

Duménil-Leblé is to merge its Swiss private banking subsidiary, DL Bank (Suisse) with Assets Development Bank, a Swiss private and corporate finance bank controlled by Mr Duménil.

The new bank will be called Banque Duménil-Leblé (Suisse) and will be based at Geneva, with offices in Zurich and Lugano.

GAN results down on UK storm claims

By William Dawkins in Paris

GROUPE des Assurances Nationales (GAN), the third largest French state-owned insurance company, yesterday revealed that net profits fell by 8 per cent last year.

GAN, due to publish final results on April 18, announced that net attributable profits fell from FF2.5bn (\$471m) in 1989 to FF2.3bn last year, on turnover up by 23 per cent from FF2.7bn to more than FF3bn over the same period.

The French insurance business put in a good result, though, results were affected by storm claims in Europe and notably in the UK, where GAN owns Minister, an accident insurance company.

Restructuring charges push VNU down 7%

By Ronald van de Krol in Amsterdam

VNU, the largest publishing group in the Netherlands, said provisions taken for future reorganisations helped push net profit down by 7 per cent to FL146m (\$88m) in 1990.

The company gave no details of the size of the provisions, but a spokesman said the reorganisation charges were linked to possible changes in VNU's printing operations.

VNU has said it is considering a partial or a full withdrawal from printing in order to concentrate on its core publishing businesses.

A final decision has not yet been taken. If it had not been for the provisions, net profit in 1990 would have been unchanged, compared with 1989, the spokesman said.

Operating profit fell by 4 per cent to FL230m, while turnover rose by 4 per cent to FL2.73bn. The company is to pay a 1990 dividend of FL2.60, unchanged from 1989.

In consumer publishing, VNU's newspaper and magazine activities posted virtually unchanged results.

VNU's Belgian magazines reported a significant decline in operating profit, as did the group's other printing activities.

Results Speak For Themselves

Total Assets	up 21 %	to \$ 3.7 billion
Total Loans	up 42 %	to \$ 1.5 billion
Total Deposits	up 16 %	to \$ 2.5 billion
Profit (after tax)	up 66 %	to \$ 250 million
Shareholders' Equity	up 36 %	to \$ 724 million

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The following are unaudited abridged financial statements for the year ended 31 December 1990 together with pro forma comparative figures for the year ended 31 December 1989

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Notice of Early Redemption

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Variable Redemption Amount Notes Due 1993**

NOTICE IS HEREBY GIVEN to the Noteholders that, in accordance with Clause 6(C) of the Terms and Conditions of the Notes, the Bank will redeem all of the outstanding Notes at their Redemption Amount, together with accrued interest, on the next Interest Payment date, 14th April, 1991 (the "Redemption Date"), when interest on the Notes will cease to accrue.

Payment of the principal and interest will be made on, or after, the first business day following the Redemption Date at the specified office of the Paying Agents, against surrender of the Notes together with all unmaturing Coupons attached.

Bankers Trust
Company, London
13th March, 1991

Agent Bank

BANQUE PARIBAS

US\$200,000,000
Undated floating rate securities

In accordance with the provisions of the securities, notice is hereby given that for the three month interest period from 13 March 1991 to 13 June 1991 the securities will carry an interest rate of 6 3/4% per annum. Interest due on 13 June 1991 will amount to US\$17.57 per US\$1,000 security.

Agent: Morgan Guaranty Trust Company

JPMorgan



£250,000,000

Floating Rate Notes due 1994

In accordance with the provisions of the Notes, notice is hereby given that the Rate of Interest for the three month period ending 11th June, 1991 has been fixed at 12.4375% per annum. The interest accruing for such three month period will be £313.49 per £10,000 Bearer Note, and £3,134.93 per £100,000 Bearer Note, on 11th June, 1991 against presentation of Coupon No. 5.



11th March, 1991

**London Branch
Agent Bank**

INTERNATIONAL COMPANIES AND FINANCE

Giving Canada Packers the cure
Bernard Simon looks at Hillsdown Holdings' Canadian offshoot

HAVING given Canada Packers the most vigorous shake-up in its 64-year history, Britain's Hillsdown Holdings wants to broaden the horizons of the rejuvenated Toronto-based food processor.

A New York Stock Exchange listing, wider public shareholding and acquisitions in new and existing business areas are among the possibilities mentioned by Mr David Newton, the energetic Hillsdown director who took the helm at Canada Packers when the UK food, furniture and property company bought its 56 per cent stake last July.

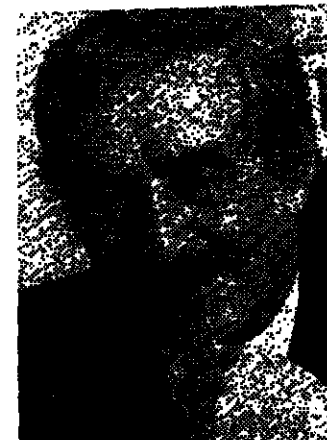
For Hillsdown, the first fruits of that deal will emerge today, when both companies report 1990 results.

Before accounting for minorities, Canada Packers, which has absorbed Maple Leaf Mills, Hillsdown's existing Canadian subsidiary, is expected to make a maiden six-month contribution of about C\$40m (US\$34m) pre-tax. This is less than 10 per cent of the C\$19m (US\$16m) which London analysts expect Hillsdown to report for the full year.

But Mr Newton, who has spent the past nine months giving Canada Packers the famed Hillsdown "turnaround treatment", has only just begun. He says: "We've got a critical mass now that's quite sizeable. That gives us the ability to do other things, but they won't be done overnight or in five minutes."

Recent moves indicate Mr Newton's gaze will largely be directed southwards. Canada Packers bought an Ontario pork processor last month to give itself the economies of scale needed to make its products more competitive in the US market.

All of Hillsdown's other



David Newton: mission in Toronto not complete

North American operations, which include fish, poultry, salads and food distribution interests in the US, already report to Mr Newton in Toronto. Canada Packers and its US sister companies are being encouraged to open up markets for their products across the border.

Canada Packers' ability to tackle new markets and new products has greatly improved since the Hillsdown takeover. By decentralising operations, emphasising cash management and unemotionally closing and selling unprofitable businesses, Hillsdown has brought an edge to Canada Packers which it never had as a stodgy, family-controlled concern.

"It's had passive management for the past six decades," says Mr Michael Palmer, analyst at Sanwa McCarthy Securities in Toronto. "With more active management, it could make some reasonable returns."

Mr Steve Garmaise, of First Marathon Securities, forecasts

that Canada Packers' return on equity could rise from a meagre 5.6 per cent in 1990 (based on continuing operations) to just over 10 per cent in 1992.

The whirlwind which Hillsdown unleashed last July is illustrated by the experience of one senior manager who recalls that his first task after the takeover was to draw up a memo setting out what parts of his job could be moved off to other people. Within a month or two, he had joined the exodus which has sliced head office staff from 240 to 26.

Large chunks of the company are being cut loose. Dairy products and peanut butter have been sold. The edible oils division is on the block, as are the unprofitable remains of the company's former core, its beef slaughtering operations.

Getting out of beef will chop Canada Packers' annual revenues by almost a fifth to C\$3.1bn. But it will also extricate the company from a glutted market where it has been outflanked by more efficient competitors. The economies of scale needed to compete in an increasingly integrated North American market are a vital element in the restructuring.

Hillsdown immediately merged Canada Packers with Maple Leaf Mills, the flour, baking company it bought from Canadian Pacific in 1987. It has subsequently proposed putting Maple Leaf's flour business into a joint venture with John Labatt, another large Canadian food and beverage group.

Similarly, Canada Packers is investigating a meat distribution joint venture with a leading competitor, JM Schneider. Both companies sell to many of the same supermarkets and restaurants, so pooling resources could add several million dollars to Canada Packers' bottom line.

The process has not gone entirely smoothly. The milling venture with John Labatt, which will control about half the Canadian flour market, has yet to be cleared by Ottawa's anti-trust watchdog. The competition bureau has also challenged moves to merge Canada Packers' and Maple Leaf's meat rendering business in Ontario.

In general, Ottawa's restrictive supply management system for poultry and dairy products has left domestic food processors such as Canada Packers with much higher commodity costs than US companies.

While Mr Palmer of Sanwa McCarthy agrees Canada Packers "has a lot of potential", he notes that "there still are some major uncertainties".

The competition bureau's decision on the flour milling joint venture will have especially far-reaching implications for Canada's food industry as cross-border competition intensifies.

Mr Newton, who spends about a week each month at home in Norwich, says his mission in Toronto is still not quite complete. For example, the future of a joint-venture venture with a Norwegian company is up in the air.

Canada Packers itself has yet to swallow the full dose of the Hillsdown medicine. Drawing a distinction between the "stewards" who used to run the company and the "entrepreneurs" favoured by Hillsdown, Mr Newton says further management changes will be needed to weed out the stewards who remain. "Some will decide for themselves, and in some cases, we'll have to decide for them," he adds.

Data General sells unit

By Stefan Wagstyl in Tokyo

OMRON, the Japanese maker of computerised control equipment, is to buy Nippon Data General, Japanese offshoot of Data General, the US computer company, for ¥6.5bn (47m).

Omron said yesterday the acquisition fitted into its strategy of expanding further into computers and communications technology. Nippon Data General would continue to be Data General's main distributor in Japan and would retain its name. It would co-operate with Omron in the development and sale of computer equipment in Japan.

Apart from the sales network, the attraction of Nippon Data General lies in its team of software development engineers who adapt software to the Japanese market.

Nippon Data General has been operating in its current form under the control of Data General since 1979. It employs 550 and its sales last year totalled ¥1.6bn. It has offices throughout Japan and a factory near Tokyo.

Data General said the deal would result in a gain of about \$13m and net cash proceeds of about \$30m.

Square D in merger talks

By Barbara Durr in Chicago

SQUARE D, the Palatine, Illinois, electrical equipment manufacturer trying to thwart a hostile takeover by Groupe Schneider of France, revealed it was in discussions "with third parties" about possible joint ventures or mergers.

The company declined to identify the third parties, but speculation among analysts has been focused on Siemens of Germany, Asea Brown Boveri of Sweden and Hanson of Britain. Hanson declined to comment on the speculation.

A clear strategic objective of Square D has been to expand its European presence.

In a Securities and Exchange Commission filing, Square D said it was exploring possible joint venture mergers, leveraged buy-outs or reorganisations. It added it expected to begin talks with several banks to determine their interest in lending for these purposes.

Schneider initially offered \$1.9bn, or \$78 a share, which Square D rejected, stating it wanted to remain independent. Schneider then made a tender offer to all shareholders at the same per-share price.

Hershey Foods gains foothold in Europe

By Clay Harris

HERSHEY Foods, the largest US chocolate confectioner, is to gain its first European manufacturing foothold through the purchase of Gubor Schokoladen, a subsidiary of Behlen, the German biscuits group. The price was not disclosed.

Gubor, which specialises in pralines and seasonal chocolates, has annual sales of about \$100m (\$8m). Hershey makes only token sales in Europe through specialty outlets. It sold a 20 per cent stake in Marabou last year when the Swedish confectioner merged with Fretia of Norway.

The US company said it was too early to say whether its products would be made at Gubor's plants in Munster and Muelheim and if it would introduce the Gubor range to the US.

Rowntree Macintosh is to launch an Italian range of chocolate in the UK in September. Bacil is the first existing Nestlé brand to be brought into the UK market since Rowntree was bought by the Swiss group in 1988.

Citicorp plays down credit card stake sale

CITICORP, the largest US banking group, said the \$1bn sale of a 20 per cent stake in its credit card operations was not "a high probability", writes Alan Friedman in New York.

Mr Richard Braddock, Citicorp president, said discussions were still under way concerning the sale, but added: "I wouldn't assign a high probability to it."

Reports of the possible sale by Citicorp first emerged in mid-February. Mr Braddock stressed Citicorp had only previously mentioned the possibility of selling "up to 20 per cent" and market analysts had assumed this meant the full 20 per cent stake.

Mr Braddock added the bank might decide not to issue any more convertible preferred stock similar to the \$1.2bn it has placed privately with Saudi Arabia (\$500m) and with a pool of US and European institutional investors (\$500m).

SANWA SHUTTER CORPORATION

(A) US\$370,000,000
3 per cent. Bonds due 1992
(B) US\$130,000,000
4 1/2 per cent. Bonds due 1993
(C) US\$400,000,000
2 1/4 per cent. Bonds due 1994

With Warrants to subscribe for Shares of Common Stock of Sanwa Shutter Corporation

You are hereby notified that, as a result of the distribution of Shares of Common Stock of SANWA SHUTTER CORPORATION to the holders of the above securities, the following information is being provided to you:

1) Japan time, at the rate of 0.1 shares for each share held, the subscription price of the above-captioned warrants will be adjusted pursuant to clause 3 of each respective indenture dated (A) 20th August, 1987, (B) 17th August, 1988 and (C) 15th February, 1990 as set forth below.

2) subscription price per share before adjustment:
(A) Yen 674.10
(B) Yen 663.10
(C) Yen 1,504.60

3) subscription price per share after adjustment:
(A) Yen 612.30
(B) Yen 762.30
(C) Yen 1,749.60

Effective date of the adjustment (Japan time): 1st April, 1991. Date of issue of the new shares issued in above: 20th May, 1991.

SANWA SHUTTER CORPORATION By The "Global Bank", Limited, London Branch, as Principal Paying Agent, Dated 13th March, 1991.

Wells Fargo & Company

US\$150,000,000
Floating rate subordinated notes due 1994

In accordance with the provisions of the notes, notice is hereby given that for the interest period 13 March 1991 to 13 June 1991 the notes will carry an interest rate of 6 1/4% per annum. Interest payable value 13 June 1991 per US\$1,000 security will amount to US\$17.09 and per US\$10,000 security will amount to US\$170.90.

Agent: Morgan Guaranty Trust Company

JPMorgan

CITY OF VIENNA
US\$ 70,000,000
Floating Rate Secured Notes Due 1992

For the 3 months period 12th March, 1991 to 12th June, 1991, the Notes bear the interest rate of 6.8125%. US\$174.10 will be payable from 12th June, 1991 per US\$10,000 principal amount of Notes.

Yamichi International (Europe) Limited, Agent Bank

RZBX

Ratiffen Zentralbank Österreich AG

RZB-Austria (Formerly GZB Vienna)

US\$50,000,000
Floating rate subordinated notes due 1992

For the three months 13 March 1991 to 13 June 1991 the notes will carry an interest rate of 6 1/4% per annum. Interest payable value 13 June 1991 per US\$1,000 security will amount to US\$17.09 and per US\$10,000 security will amount to US\$170.90.

Agent: Morgan Guaranty Trust Company

JPMorgan

BANQUE PARIBAS

US\$400,000,000
Undated subordinated floating rate securities

In accordance with the provisions of the securities, notice is hereby given that for the interest period 13 March 1991 to 13 June 1991 the securities will carry an interest rate of 6 1/4% per annum. Interest payable value 13 June 1991 per US\$1,000 security will amount to US\$17.09 and per US\$10,000 security will amount to US\$170.90.

Agent: Morgan Guaranty Trust Company

JPMorgan

American Savings and Loan Association

US\$200,000,000
Collateralized Floating Rate Notes Due 1996

Notice is hereby given that the Rate of Interest has been fixed at 6.775% p.a. and that the interest payable on the relevant Interest Payment Date September 13, 1991 against Coupon No. 10 in respect of US\$1,000,000 nominal of the Notes will be US\$3,462.78 and in respect of US\$250,000 nominal of the Notes will be US\$865.94.

March 13, 1991 London

By: Citibank, N.A. (CSSI Dept.), Agent Bank

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Can. \$100,000,000

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Merrill Lynch International Limited

NMB Postbank Groep N.V.

RBC Dominion Securities International

Swiss Bank Corporation

Westdeutsche Landesbank Girozentrale

March 1991



The 1990 Report

- Consolidated sales SEK 29.0 (29.6) billions, a reduction of 2 per cent
- Consolidated income after financial income and expenses SEK 2.2 (1.6) billions, an increase of 35 per cent
- Consolidated income before appropriations and taxes SEK 2.5 (1.6) billions, an increase of 60 per cent
- Income per share after taxes paid SEK 28.00 (16.10)
- Income per share after full taxes SEK 21.10 (15.55)
- Liquid funds SEK 11.9 (8.3) billions
- Solvency 49 (45) per cent
- After-tax return on stockholders' equity 9.2 (7.5) per cent
- Pre-tax return on capital employed 12.1 (11.0) per cent
- The Board's proposal for a dividend of SEK 7.75 per common share

SAAB-SCANIA GROUP

Sales and Income
Consolidated sales of the Saab-Scania Group amounted to SEK 29,035 m. compared with SEK 29,558 m. the previous year exclusive of the former Saab Car Division, i.e. a decrease of 2 per cent. Foreign market sales were SEK 18,798 m. (18,933) corresponding to 65 (64) per cent of total sales.

Consolidated income of the Saab-Scania Group before the Group's share of income of associated companies, i.e. the part of the operations for which the Group directly can affect income and cash flows, amounted to SEK 3,782 m. (1,296), equal to 12.9 (2.9) per cent of sales.

The Group's share of income of associated companies was SEK -1,568 m., mainly related to Saab Automobile.

Consolidated income, after financial income and expenses, increased by 35 per cent to SEK 2,164 m. (1,600), equal to 7.5 (3.8) per cent of sales.

Consolidated income before appropriations and taxes increased to SEK 2,519 m. (1,575). Appropriations for the year were SEK 1,648 m. (94).

Bid for Saab-Scania
On February 25, 1991, AB Investor and Förelämnings AB Providence filed a bid for the purchase of all shares and personnel-owned convertible debentures in Saab-Scania AB. The details of this bid have earlier been distributed, together with the recommendation by the Board of Saab-Scania to accept it. A prospectus containing further information to shareholders on the bid will be sent out at the beginning of April 1991.

Linköping, February 28, 1991

THE BOARD OF DIRECTORS

CONSOLIDATED STATEMENT OF INCOME

SEK millions	1990	1989
Sales	29,035	44,905
Manufacturing, selling and administrative expenses	-25,783	-42,287
Operating income before depreciation	3,252	2,618
Depreciation according to plan	-1,171	-1,900
Operating income after depreciation	2,081	618
Financial income and expenses	1,651	478
Income before share of income of associated companies	3,732	1,296
Share of income of associated companies	-1,568	304
Income after financial income and expenses	2,164	1,600
Extraordinary income and expenses	355	-25
Income before appropriations and taxes	2,519	1,575
Minority interest	-8	-52
Appropriations	-1,648	-94
Income before taxes	863	1,429
Taxes	-510	-420
Net income	353	1,009

CONSOLIDATED INCOME AFTER FINANCIAL INCOME AND EXPENSES

SEK millions	1990	1989	Change
Scania Division	2,902	3,575	-19 %
Saab Aircraft Division	111	54	54 %
Saab-Scania Combitech	204	199	3 %
General income and expenses in the Group	572	-97	2 %
Total Saab Car Division	3,789	3,731	2 %
The Group's share of Saab Automobile's income	-1,625	-2,131	
Group	2,164	1,600	35 %

CONSOLIDATED BALANCE SHEET

SEK millions	1990	1989
ASSETS		
Current assets		
Cash and marketable securities	9,420	5,078
Other current assets	18,373	20,238
Fixed assets		
Bonds and other securities	2,427	3,198
Other fixed assets	14,528	18,043
TOTAL ASSETS	43,146	46,527
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities	16,549	19,094
Long-term liabilities	5,829	7,375
Minority interest in subsidiaries	408	407
Undistributed reserves	9,457	11,284
Stockholders' equity	9,902	8,367
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	43,146	46,527



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INTERNATIONAL CAPITAL MARKETS

Treasuries trade narrowly as the dollar slips back

By Karen Zagor in New York and Tracy Corrigan in London

US treasuries settled in a narrowly mixed range yesterday morning as the market paused amid uncertainty about the direction of the US economy after a spurt of volatility on Monday afternoon.

At mid-session, the treasury's benchmark 30-year bond was down 1/8, yielding 8.22 per cent, while the short end of the yield curve was unchanged through most of the morning.

The Federal Reserve refrained from operating in the open market yesterday morning.

With Fed funds changing hands at the Fed's perceived target for the rate of 6 per cent, there was no policy meaning attached to the lack of intervention.

The long end of the market was depressed by the deterioration in the dollar following concerted central bank intervention. Bonds had moved higher on Monday on the back of the dollar's rally. At mid-session, the dollar was quoted at 136.40 and DML5725, sharply below its level of 138.20 and DML515 late on Monday in New York.

There was also some disappointment that the Federal Reserve had not cut the discount rate on Monday.

The market was waiting for today's release of retail sales for February and early-March auto sales figures, which may

give a clue of post-war consumer sentiment.

ACTIVITY in foreign exchange markets dominated traders' attention again yesterday as European bond markets mostly traded in a narrow range and in low volume.

The bund future on the London International Financial Futures Exchange ended slightly higher, at 85.80, up from Monday's close of 85.63, tracking the US market, but the tone of the market remained rather weak. Dealers expect prices to continue to trade in a tight range over the next few days.

Meanwhile, the Bundesbank kept to fixed-rate repurchase agreements, indicating that it is not going to raise rates yet, analysts said.

The interest rate differential between French and German markets has narrowed still further to 50 basis points, having hovered around 70 basis points in February.

PRICES in the UK gilts market slipped around half a point as traders reported profit-taking and some shifting of positions from long to short-dated stocks, possibly in the expectation of a further interest rate cut around the UK Chancellor of the Exchequer's budget.

The June gilt future on Liffe ended at 91.7, down from 92.4.

JAPANESE government bonds also traded in a narrow range, with the No 129 benchmark issue quoted at a yield around 6.6 per cent during Far Eastern and European trading.

Lawyer warns of Kuwait loan pitfalls

By Stephen Fidler, Euromarkets Correspondent

BANKS lending to Kuwait should be careful not to fall prey to the pitfalls suffered by bank lenders for projects in Saudi Arabia in the 1980s, according to a London lawyer.

Mr Stephen Fidler, of Norton Rose, a law firm heavily involved in the drafting of legal documentation for loan contracts, says banks suffered losses because of misconceptions on loans to contractors involved in the development of Saudi Arabia's infrastructure.

These misconceptions often arose in the financing of projects such as schools, universities, hospitals or roads which were not income-producing.

The viability of financing the projects was seen by the banks concerned as the financial standing of the employer, which was usually a ministry.

There were usually three parts to these financings: banks would issue an advance payment guarantee and performance bond in favour of the employer; a letter of credit to import the relevant materials; and a working capital facility to enable the contractor to finance short-term working capital requirements. Often the only security taken by banks was charge over the contract proceeds payable by the employer, on the flawed argument that the creditworthiness of the employer made further protection unnecessary.

However, Mr Fidler points out in a paper that banks should have obtained parent company guarantees in the case of a joint venture contractor or security from a local contractor, preferably in a jurisdiction where that security could be easily enforced.

Banks should also monitor the progress on the contract more carefully than they did in Saudi Arabia, where they were often advancing funds at a time when substantial disputes were going on between contractor and employer.

"Even more disastrously," he says, "contractors were occasionally able to finance their performance of one contract with financing facilities made available in an entirely separate contract." By the time banks put in their own independent consultants the facilities were often in default.

Banks should also seek to impose further restrictions on the nature of the security they are willing to take: banks should insist on greater balances being built up into the assigned accounts used as security.

However, the paper suggests banks involved in financing the Kuwaiti reconstruction will have some advantages because Kuwait's system of commercial law is more sophisticated than Saudi Arabia's. Kuwait's commercial law is less influenced by the Islamic Sharia law and Kuwait's courts have been willing to enforce payment of interest, although there are limits on interest rates on loans made in Kuwaiti dinars.

In addition, the taking and enforcement of security in Kuwait is easier than in Saudi Arabia. Finally, Mr Fidler says the Kuwaiti government will be eager to facilitate the rapid rebuilding of the country and would not be prepared to see delays arising because of reluctance on the part of bankers to provide finance.

Poland sets date for trading of privatised shares

By Christopher Bobinski in Warsaw

TRADING in shares of Poland's first five privatised companies is due to start on April 16, government officials announced yesterday.

The Warsaw Stock Exchange is to hold weekly sessions thereafter until its official opening in June. Regulations for the securities market are close to being accepted by parliament. A further seven Polish companies are due to be privatised over the next few months so business on the exchange should pick up.

In the final stages Polish banks are to act as brokers registered by the exchange which is modelled on the Lyons bourse with advice from Eurogroup, the French consultants.

Share price movements on the exchange are to be held within a 20 per cent band of the opening price at each session to avoid the risk of spectacular losses and gains.

Of the initial five share offers, only one - Exbud, the building group - saw strong demand. The four other issues had to be bolstered by banks and other institutional investors in their final stages.

Broking fees on the Warsaw exchange are to be fixed at no more than 2 per cent of the transaction.

BENCHMARK GOVERNMENT BONDS

	Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS							
13.500	08/92	105.30	-0.12	10.63	10.77	10.84	
8.000	03/00	92.07	-0.02	10.11	10.13	10.04	
8.000	10/08	92.19	-0.02	9.90	9.84	9.79	
US TREASURY							
7.750	02/01	97.31	+0.02	8.05	8.09	7.81	
7.875	02/01	98.08	+0.02	8.22	8.25	8.00	
JAPAN							
No 119	4.200	02/01	98.4915	+0.372	8.90	7.00	6.88
No 129	6.400	03/00	98.2407	+0.336	8.81	6.81	6.38
GERMANY							
5.000	01/01	104.4000	+0.100	8.32	8.34	8.41	
FRANCE							
STAN	5.000	02/98	98.5840	-0.089	9.10	9.22	9.48
OAT	5.500	01/01	103.8400	+0.120	8.82	8.04	9.15
CANADA							
5.750	06/01	101.7750	+0.430	9.47	9.67	9.60	
NETHERLANDS							
8.500	03/01	99.4300	+0.180	8.50	8.62	8.58	
AUSTRALIA							
13.000	07/00	108.7748	+0.536	11.44	11.51	11.34	
BELGIUM							
10.000	06/00	105.2500	+0.100	9.12	9.04	8.06	

London closing. *denotes New York morning session. Prices: US, UK in 32nds., others in decimal. Yields: Local market standard. Technical Data/ATLAS Price Sources

GOVERNMENT BONDS

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For further information and a copy of our Annual Report (with audited financials) together with the 1990 third quarter report, please contact: Mr Akın Öngör, Executive Vice President, 40 Merc Caddesi, 20060 Taksim-Istanbul/Turkey Tel: (90-1) 149 35 23 Tlx: 24538 galo tr Fax: (90-1) 151 45 49 Mr İlhan Nebioğlu (London Representative Office) 141-142 Fenchurch St. London EC3M 6BL Tel: (44-71) 626 3803 Tlx: 861302 galo g Fax: (44-71) 929 55 82

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UK COMPANY NEWS

Glynwed meets expectations with 25% fall

By Paul Cheeseright, Midlands Correspondent

GLYNWED International, the Birmingham-based engineering group engaged in metals and plastics processing, is maintaining its dividend in spite of a near-25 per cent fall in pre-tax profits.

At £70.3m, the outcome for 1990 was broadly in line with market expectations although it compared with £93.3m in 1989 and was the lowest since 1987. Earnings per share slid likewise, from 30.66p to 23.55p. Return on capital fell from 41.8 per cent to 26 per cent.

The proposed final dividend is 7.5p, bringing total payments for the year to an unchanged 11.55p. The decision to hold payments at the 1989 level meant that dividend cover was reduced from 2.6 to 2, the thinnest cover since the 1980s recession.

Of Glynwed's six operating divisions - consumer and building products, metal services, plastics, steels and engineering, tubes and fittings and properties - only

plastics reported higher profits.

Three of the six had lower turnover. Mr Gareth Davies, chairman, offered shareholders little solace for the current year, observing that it was difficult to give a clear indication of prospects.

"The UK economic environment continues to deteriorate and it is now evident that trading activity in the first half of the current year will be extremely difficult. Any improvement in the second half will depend on the degree and pace of fall in interest rates," he stated.

Overall, turnover dropped from £1.13bn to £1.1bn. Operating profit as a percentage of turnover fell back to 8, which was last seen in the mid-1980s. Interest charges climbed from £12m to £17.5m while net borrowings rose from £84m to £92.3m. But, because of a property revaluation, the debt-equity ratio reduced from 45.6 per cent to 41.1 per cent.

COMMENT

Glynwed is having a rough time with its consumer and building products, its steels and tubes and fittings. It is thankful to be in plastics and engineering as well. The UK markets hurt the worst and will continue to do so until interest rates are considerably lower. Apart from trimming borrowing costs, further falls might put some spring back into demand but the effects of that are not likely to be felt until 1992. Granted that this year Glynwed should have lower development costs on its new copper tube mill and with any luck should avoid further costs on redundancies, it is unlikely that 1991 earnings will reach those of 1990. Even after yesterday's fall the share price at 254p looked cheery, but if 1991 earnings sink to about 18p per share, that would give a prospective p/e of 14.5, giving a premium over the sector that looks unwarranted.



Gareth Davies: offering little solace for the present year

Finding a new bellwether for British industry

Charles Leadbeater analyses the performance of Glynwed as the recession deepens

BRITAIN HAS fallen into recession with markets falling like a line of dominoes. It started with consumer goods, then through the construction market and is about to hit capital equipment makers. There is no sign that the dominoes are about to be lifted back into place.

That was the picture of the British economy which emerged yesterday from Glynwed International's results. With ICI been to drop its unofficial title as the industrial bellwether of the British economy following its internationalisation in recent years, Glynwed would be a worthy successor.

It makes more of its sales in the UK, 70 per cent, than many comparable engineering groups such as ICI, GKN or TI. It serves a wide range of markets including consumer products,

housing, commercial property, automotive makers and capital equipment makers. Its business has been able to track the recession like a wave slowly moving across its divisions.

Glynwed's performance in the recession, including when it spots the bottom and the first signs of an upturn will be a reasonably good guide to the movement of the economic cycle as a whole.

Mr Gareth Davies, the chairman reported that the downturn had begun with white goods in the autumn of 1988. It spread to home improvement markets and housing by mid-1989. Steel demand began to fall in mid-1990 when non housing construction also began to turn down.

Glynwed expects steel consumption this year to be about 6 per cent lower, after an 8 per

cent fall last year. With manufacturers cutting investment, capital goods equipment makers are about to feel the pinch.

One of the most important questions is how long higher car exports can make up for the fall in UK registrations this year. By the time these markets go into recession, the housing market may be showing the first signs of coming to life, according to Mr Davies.

All markets, industrial and consumer, gas cookers, cast iron building products and sinks, took a beating in November and December last year to be 30 per cent below the peak of 1987-88. About 5-10 percentage points of that fall was due to destocking by manufacturers.

The only Glynwed markets to have held up were for infrastructure spending by the water and gas utilities.

On the date for the upturn Mr Davies says: "There is a good argument for the late autumn, with interest rates falling, the house price to income ratio improved, lower inflation and the end of destocking."

But because some sectors late in the cycle will be still in recession it will usher in a period of low growth. It is likely to take perhaps three years to get back to levels of demand seen in 1987 and 1988.

The recession will leave a permanent mark upon Glynwed. The management has embarked on a thorough review of every business to reshape the group focussed on its core elements.

He would not be drawn on what might be said. But it is unlikely to be the plastic division which has grown from pre-tax profit of £250,000 in 1980

to £245m last year. Building products, some tube making and engineered steel are also likely to be core areas.

It is a familiar story told by most chairman of manufacturing companies in the past few weeks.

This recession will lead to a further refocusing of British manufacturing moving it out of volume, commodity areas further into niche products which could be the base for a strong international position. That reshaping, through divestment and acquisition, will probably not begin until the economy picks up, prices for unwanted businesses improve and buyers come back into the market.

British business will be unravelling the consequences of this recession well after the economists declare it formally over.

Maxwell secures deal on Daily News

By Alan Friedman in New York

MR ROBERT Maxwell yesterday reached agreement to acquire the strike-bound New York Daily News after the British publisher secured 'agreement in principle' on job cuts with the newspaper's ten striking trade unions.

The Tribune Group of Chicago, which owns the loss-making paper, last week signed a letter of intent that calls for the transfer of The News to Mr Maxwell if he can persuade the striking unions to accept swingeing job cuts.

The paper lost \$100m in 1990 and is forecast to lose \$80m (\$22m) in the first quarter of 1991. Circulation has halved from 1.2m since the strike began last October and most advertising has been cancelled.

Mr Maxwell began the talks last Thursday and returned to New York on Sunday night from a brief trip to London, having set a deadline of 10 am on Monday to reach a deal with the unions. He is seeking to cut 800 of the 2,400 union positions on the paper, which translates into an annual cost reduction of \$70m.

Mr Maxwell first set a new deadline of midnight on Monday but talks continued round-the-clock yesterday.

Tribune had said it would shut down the paper if Mr Maxwell could not reach an agreement with the unions by March 15.

It is believed, that the likely deal would see Mr Maxwell receiving a cash payment from Tribune in exchange for investing about \$50m and assuming severance payment expenses and long-term liabilities of The News.

Next plays for time to favour Otto's offer for Grattan

By Maggie Urry

NEXT, THE high street and home shopping retailer, plans to adjourn the special shareholders meeting it is holding today to give investors more time to consider the competing bids for its Grattan mail order business.

However, the meeting could still be exciting. Next plans to explain to shareholders why it is recommending the apparently lower £151m bid from Otto-Versand, the private German retail group, rather than the £158m offer made by Sears, the UK retailer.

Mr Michael Pickard, chief executive of Sears and a former director of Grattan, plans to be at the meeting. Next said it had a stake of just under 3 per cent of Next, Otto, which has bought 9.9 per cent of Next's shares in recent weeks, is also expected to be represented at the meeting.

Next said it decided to move the adjournment because events had moved rapidly since the meeting date was fixed. Some shareholders had not had time to return proxy forms. However, outsiders suggested that Next's motive was a fear of losing the vote at the meeting.

Next rehearsed its arguments for favouring Otto's offer to stockbrokers analysts yesterday afternoon. It said that after taking preliminary bids from both sides, it had signed an exclusive agreement with Otto which had made the higher first offer, promising not to negotiate with any other purchaser. Then Sears had come back with another bid.

Next's reasons for continuing to favour Otto revolve around the need for Grattan's

new owner to provide services for the Next Directory, the home shopping catalogue which Next is keeping.

The Directory is the fastest growing part of Next's business with sales in the last financial year of £90m. Grattan's purchaser will provide computing services, warehousing, order fulfilment and customer delivery.

Next said that contracts covering the main services amount to around £50m over the next four years, and will then be renegotiated. It said that the main services amount to around £50m over the next four years, and will then be renegotiated. It said that the main services amount to around £50m over the next four years, and will then be renegotiated.

Mr Pickard said that he had met Next's management last week and assured them that Sears could provide the same services as Otto at the same price.

Mr Michael Otto, head of Otto, yesterday wrote to Next shareholders saying that Otto was far better able to provide the services than Sears, and was not a competitor to Next in other areas of UK retailing. He said Otto's purchase of a 9.9 per cent stake demonstrated its wish to be a long-term partner.

Otto also said that its offer would no longer be conditional on the European Commission approving the merger. Although many on the Otto side had thought that the EC's approval was a formality, Sears had made much of the point that its £158m offer did not depend on EC clearance.

Next shares gained 1/2p to 28p yesterday while Sears fell 1/2p to 94p.

Hartstone expands into US with £70m purchase

By Jane Fuller

HARTSTONE Group, the handbags and hosiery company, is expanding into the US via the purchase of two leather goods businesses for up to \$127.5m (\$98.9m).

The initial consideration of \$90m in cash and shares, which includes repaying debt of \$55.3m, will be funded by a one for one rights issue at 155p a share to raise a total of \$45m. Hartstone's shares were suspended at 185p on February 28.

The combined purchase of Elysian, a management buy-out, and Michael Stevens is considerably bigger than Hartstone's previous 15 acquisitions. Added together, they cost nearly \$40m. The group has been built up over the past two years since Mr Stephen Barker, chairman, led a management buy-out of the hosiery company.

The US companies, in which Charterhouse Group International had the main interest,

made pre-tax profits of \$17m on sales of \$129m in 1990. In the year to March, Hartstone is forecast to make a pre-tax profit of £7.3m (£3.2m) on sales of \$60m to £70m.

Further payments of up to \$7.5m will be made if pre-tax profits exceed \$35m over the next two years.

This step into the US follows the building up of a 15 per cent share of the UK market for handbags and small leather goods, and a 20 per cent share in hosiery. Hartstone moved into continental Europe in October, through the purchase of a 26 per cent stake in Eiko Werner, a German-Dutch hosiery distributor. A small Spanish purchase followed in December.

The group had minimal borrowings before the US deal and will have about \$5m to spare from the rights issue proceeds after the initial payment. The issue has been underwritten by Schroders.

Strong second half helps Kerry advance 13%

By Kieran Cooke in Dublin

Kerry Group, the Irish food company, announced pre-tax profits ahead by 12.5 per cent from £17m to £19.5m (£18m) for 1990. The results were in line with market expectations and reflected a strong second half performance. Turnover increased by only 4 per cent to £264m (£259.6m), but Kerry has managed to re-establish price margins and introduce further efficiencies.

The group has also successfully diversified, buying Beattie, the US food ingredients company in 1988 for \$130m and recently spending \$28m on two UK food companies, Robich and WL Miller and Sons.

Kerry has also become heavily involved in meat and poultry processing. The recommended final dividend on the group's 'A' shares is 1.35p and on 'B' shares 0.94p.

Carlton signs TV deal

By Raymond Snoddy

Carlton Communications put another piece of its plans to bid for an ITV licence in place yesterday by signing a deal with Noel Gay Television.

Noel Gay Television - an independent production company which specialises in comedy - will develop a series of programmes for Carlton over the next three years.

Mr Paul Jackson, managing director of Noel Gay, will be director of programmes designated for Carlton's application for a major Channel 3 franchise.

Carlton has not yet revealed which franchise it intends to bid for. Thames - the London

daytime franchise and the largest TV company - seems the most likely target. A previous attempt by Carlton to take over Thames was blocked by the Independent Broadcasting Authority.

Mr Jackson is a former BBC director and producer who has produced comedy programmes such as The Two Ronnies and Carrot's Lib.

Mr Nigel Wainman, who is to be chief executive of Carlton Television, the Carlton subsidiary making the bid, said "we are very pleased to have secured both Paul Jackson's and Noel Gay's commitment to our plans".

API chief quits over policy

By Andrew Bolger

API GROUP, formerly Associated Paper Industries, said Mr Adrian Missenden had resigned as managing director following a disagreement over strategy.

The group's chairman, Mr Charles Rawlinson, who had already intended to retire this year, will do so with immediate effect. He will be replaced by Mr Peter Armitage, deputy chairman, and executives will report to Mr Armitage until a new managing director is appointed.

API shares, which were worth 350p three years ago, yesterday closed at 106p, down

8p, valuing the company at £224m.

Mr Missenden was brought in three years ago and took the company out of papermaking, selling its remaining mill. The group now has three divisions: image enhancement products, converted film and paper products, and heating and air conditioning.

API made pre-tax profits of £1.85m (£1.88m) on lower turnover of £72.43m (£79.58m) in the year to September 29. Margins on the image enhancement side had come under pressure due to competition and customers destocking.

Ex-finance director leaves Tootal

Tootal, the textile group trying to fend off a £194m hostile bid from Costa Viyella, yesterday announced the resignation of Mr Alan Webb, its former finance director, from its main board, writes Alice Rawsthorn.

Mr Webb resigned as finance director six weeks ago - two weeks after the departure of Mr Geoffrey Maddrell as chief executive.

Tootal said Mr Webb's appointment as a non-executive director was only ever seen as a temporary measure.

Mr Anthony Hagood, who succeeded Mr Maddrell as chief executive, said Mr Webb had decided to leave earlier than expected because the hostile Costa bid meant that the role of non-executive directors would change significantly.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
American Trust	3.25	May 10	3.1	4.7	4.5
Blagden Inds	5	May 3	4.9	9.57	9.1
BNA Group	1.81	May 31	1.2	2.8	2.8
Cels	1.15	May 9	1.15	-	3.4
Colson Inds	1.2	July 10	1	1.2	1
Clondalkin	2.4844	-	2.3	4.056	3.755
CHW S	1.53	May 31	1.2	2.8	2
Cres	1.5	May 1	1.2	2	2
Domestic & Gen S	4.5	May 9	3.5	-	10.5
Everest Foods	2.2	May 9	2	-	8
Glynwed Int	7.5	July 4	7.5	11.55	11.65
Kerry Group	1.35	-	1.35	2.1	2
Logica	1.15	Apr 30	1.1	-	3.4
Merchants Trust	2.25	-	2.15	9	8
Plaxton	1.5	May 3	5.5	4.5	8.5
RPS S	1.8	-	1.6	0.2	2.8
Second Market	2.41	-	0.33	2.4	0.33
StanChart	7.54	May 17	22.5	20	35
Strong & Fisher	nil	-	2	-	2
USDC Int Trust	3.25	May 3	2.85	4.25	3.85
Wimpey (George)	6.5	May 7	8.5	10.5	10.5

Dividends shown pence per share net except where otherwise stated. Equivalent after allowing for scrip issue. 100 capital increased by rights and/or acquisition issues. \$USM stock. *Carries scrip option. †Irish currency. ‡Includes special dividend of 1.4p.

This notice is important and requires the immediate attention of Bondholders. If Bondholders are in any doubt as to the action they should take, they should consult their independent financial adviser.

CenterParcs
CENTER PARCS U.K. PLC
(the "Issuer")

NOTICE

to the holders of the £60,000,000 5% per cent Guaranteed Convertible Subordinated Bonds 1988 due 1998 (the "Bonds") guaranteed on a subordinated basis by:

CENTER PARCS N.V.

(with its Corporate Seat in Rotterdam, The Netherlands)

NOTICE IS HEREBY GIVEN to the holders of the Bonds ("the Bondholders") that, at the Meeting of the Bondholders convened by notice published in the Financial Times on 18 February 1991 and held on 12 March 1991, the Extraordinary Resolution set out in such notice was passed. Accordingly, pursuant to and in accordance with that Extraordinary Resolution and the terms and conditions endorsed on the Bonds ("the Conditions") and in particular, Condition 4(b) ("Optional Redemption by the Issuer"), Center Parcs U.K. PLC will redeem on 18th March 1991 (the "redemption date") the Bonds whose serial numbers are noted below. The undrawn Bonds will be redeemed at a price equal to 103 per cent of their principal value, together with interest amounting to £194.06 per £5,000 nominal of the Bonds accrued to the redemption date:

5, 25, 55, 56, 3329, 3356, 3406, 3407, 3426, 3427, 3524.

Availability of Redemption Monies

On redemption, payments of principal, premium and accrued interest will be made in accordance with the Conditions against surrender of the Bonds at any of the specified offices of the Principal Paying and Conversion Agent or the Paying and Conversion Agents listed below. Each Bond should be presented for redemption together with all unexpired Coupons appertaining thereto, failing which the amount of any such missing unexpired Coupons will be deducted from the sum due for payment on the redemption date.

The aggregate principal amount of the Bonds outstanding at the date of this Notice is £56,735,000.

The attention of Bondholders is drawn to the Conditions and, in particular, to Conditions 5, 6 and 7 which contain further details regarding redemption and conversion.

Bondholders should note that if the Bonds and the Coupons are not surrendered for payment as aforesaid to the Paying and Conversion Agents within periods of 12 years and six years, respectively from the redemption date, then such Bonds and Coupons will become void and cease to represent a right or claim of any kind or nature to receive the cash amount described herein, which cash amount shall be deemed to have been surrendered to the Issuer.

Principal Paying and Conversion Agent

Amsterdam-Rotterdam Bank N.V.

Herengracht 597, 1017 CE Amsterdam.

Paying and Conversion Agents

Bankers Trust Company Bankers Trust Luxembourg S.A.

1 Appold Street PO Box 807

Broadgate 14 Boulevard F.D. Roosevelt

London EC2A 2HE L-2450 Luxembourg

NOTICE OF REDEMPTION

MORTGAGE FUNDING CORPORATION NO. 1 PLC

Class A-1 Mortgage Backed Floating Rate Notes
Due March 2020

NOTICE IS HEREBY GIVEN to Bankers Trust Company Limited (the "Trustee") and to the holders of the Class A-1 Mortgage Backed Floating Rate Notes Due March 2020 (the "Class A-1 Notes") of Mortgage Funding Corporation No. 1 PLC (the "Issuer") that, pursuant to the Trust Deed dated 31st March, 1988 (the "Trust Deed"), between the Issuer and the Trustee, and the Agency Agreement dated 31st March, 1988 (the "Agency Agreement"), between the Issuer and Morgan Guaranty Trust Company of New York (the "Principal Paying Agent") and others, the Issuer has determined that in accordance with the Redemption provisions set out in the Terms and Conditions of the Class A-1 Notes, Available Capital Funds as defined in the Terms and Conditions in the amount of \$4,100,000 will be utilised on 28th March, 1991 (the "Redemption Date") to redeem a like amount of Class A-1 Notes. The Class A-1 Notes selected by drawing in lots of £100,000 for redemption on the Redemption Date at a redemption price (the "Redemption Price") equal to their principal amount, together with accrued interest thereon are as follows:

OUTSTANDING CLASS A-1 NOTES OF £100,000 EACH BEARING
THE DISTINCTIVE SERIAL NUMBERS SET OUT BELOW

Bearer Notes							
129	352	593	899	1179	1333	1597	
141	374	667	935	1219	1363	1607	
159	397	669	1020	1228	1364	1697	
421	616	1028	1247	1399	1727		
249	431	683	1061	1281	1328	1744	
313	477	838	1138	1303	1573		

The Class A-1 Notes may be surrendered for redemption at the specified office of any of the Paying Agents, which are as follows:

Morgan Guaranty Trust Company
of New York
PO Box 161
1 Angel Court
London EC2R 7AE

Morgan Guaranty Trust Company
of New York
Avenue Des Arts 35
B-1040 Brussels, Belgium

Union de Banques Suisses
(Luxembourg) S.A.
36-38 Grand-rue
L-2011
Luxembourg

Morgan Guaranty Trust Company
of New York
30 West Broadway
New York, New York 10015
Attn: Corporate Trust Operations

In respect of Bearer Class A-1 Notes, the Redemption Price will be paid upon presentation and surrender, on or after the Redemption Date, of such Notes together with all unexpired coupons and talons appertaining thereto. Such payment will be made (i) in sterling at the specified office of the Paying Agent in London or (ii) at specified office of any Paying Agent listed above by sterling cheque drawn on, or at the option of the holder by transfer to a sterling account maintained by the payee with a Town Clearing branch of a bank in London. On or after the Redemption Date interest shall cease to accrue on the Class A-1 Notes which are the subject of this Notice of Redemption.

MORTGAGE FUNDING CORPORATION NO. 1 PLC

By: Morgan Guaranty Trust Company

(OF NEW YORK, as Principal Paying Agent)

Dated: 13th March, 1991

NOTICE

Withholding of 20% of gross redemption proceeds of any payment made within the United States is required by the Interest and Dividend Tax Compliance Act of 1983 unless the paying agency has the correct taxpayer identification number (social security or employer identification number) or exemption certificate of the Payee. Please furnish a properly completed Form W-9 or exemption certificate or equivalent if presenting your Class A-1 Notes to the paying agency's New York Office.

HongkongBank

The Hongkong and Shanghai Banking Corporation Limited

Incorporated in Hong Kong with limited liability

Results for 1990

The Directors announce that the profit for the year ended 31 December 1990 attributable to shareholders of the Bank was HK\$3,096 million (1989: HK\$4,774 million), a decrease of 35 per cent. The profit was arrived at after providing for taxation and after making transfers to inner reserves.

With the notable exceptions of Germany and Japan, world economic growth slowed during 1990, particularly in the United States. Inflationary pressures increased, particularly after the rise in oil prices following the crisis in the Gulf. The Asian economies, strongly dependent on the rest of the world, showed similar trends but still enjoyed good average growth rates.

On 25 January 1991, in its announcement of a second interim dividend of 26 cents per share, bringing dividends for 1990 as a whole to 39 cents per share (an increase of 2.1 per cent over 1989), the Board indicated that the group's results would reflect the downturn in the world economy and that the poor performance of some subsidiaries would have a material adverse impact on the group's results for 1990 so that profits would be substantially lower than for 1989.

In the United States Marine Midland Bank reported a loss of US\$295.6 million, largely as a result of the need to make provisions against its commercial real estate portfolio in a market which remained weak. The effect of high interest rates and recession in Australia on the corporate sector, together with the write-off of a deferred tax asset of A\$79 million in respect of previous years, resulted in a loss of A\$273 million for HongkongBank of Australia. In the United Kingdom, the results of the Bank's own commercial banking business were adversely affected by the need to make provisions against the corporate loan portfolio.

By contrast, the Bank's traditional businesses in Asia performed well, and in some cases exceeded expectations. However, provisions were required against a number of loans to projects in the People's Republic of China. Although the Bank's domestic operations in Singapore had record results, the offshore unit was badly affected by exposures to a number of group clients in Australia. In Hong Kong, the economy grew slowly but loan demand remained steady and the Bank's operations in the territory achieved good results. Hang Seng Bank's profit increased by 20 per cent to HK\$2,187.8 million. Despite the Gulf crisis both The British Bank of the Middle East (BBME) and its associate The Saudi British Bank performed satisfactorily. BBME recorded a profit of £31.1 million, compared with £20.7 million in 1989. Hongkong Bank of Canada had another good year, reporting after-tax profit of C\$48.7 million for the year ended 31 October 1990, an increase of almost 40 per cent over 1989.

The performance of the group's capital markets businesses was mixed. Although lower than the record performance in 1989, the Wardley Group's profit of HK\$321.1 million for 1990 was satisfactory. CMAI reported a small profit, which was a welcome recovery from the loss reported in the previous year. Significant losses in Euro-convertible market making and the costs of a major restructuring programme, together with low turnover in securities markets in the second half of the year, seriously affected the results of the James Capel Group which reported a loss of £30.3 million.

Grenville Transportation Holdings reported a profit of HK\$1,052.9 million for 1990, partly as a result of an exceptional gain from the sale of its remaining shareholdings in World Maritime, and World Shipping and Investment Company.

At the Meeting held on 26 February 1991 shareholders approved by 2,004,510,535 votes to 7,066,421 the Scheme of Arrangement to reorganise the HongkongBank group, making HSBC Holdings plc the group holding company and HongkongBank a wholly owned subsidiary of HSBC Holdings through the acquisition of the entire issued share capital of HongkongBank by HSBC Holdings.

Subject to sanction of the Scheme by the Supreme Court at a hearing to be held on 26 March, and to the Boards of Directors of HongkongBank and HSBC Holdings being satisfied with regard to the grant of listings for HSBC Holdings shares in Hong Kong and London and obtaining all necessary authorisations and approvals, it is expected that the Scheme will become effective on 2 April 1991, that certificates for new shares in HSBC Holdings will be posted on or before 6 April, and that dealings in the new shares will begin on the Stock Exchanges in Hong Kong and London on 8 April 1991.

Outlook for 1991

The outlook for 1991 is very uncertain, despite the welcome end to the war in the Gulf. The weakness of the US economy, and its implications for the health of the financial sector in that country, are grounds for concern. It is probable that world economic growth will be slower than in 1990, although there could well be signs of recovery towards the end of the year.

Although growing more slowly than in 1990 the East Asian region is still likely to be the fastest growing region in the world. However, even if demand begins to build up towards the end of 1991, capacity constraints will restrain growth, keeping inflation relatively high.

Notwithstanding the uncertainties ahead, it is expected that, in the absence of unforeseen circumstances, the Board of HSBC Holdings will recommend dividends for 1991 of at least the total amount of the dividend distribution paid by HongkongBank in respect of 1990, that is, HK\$1.56 per HSBC Holdings share (equivalent to 39 cents on each share in the current issued capital of HongkongBank).

Consolidated Profit and Loss Account for the year ended 31 December 1990 (audited)

1989	1990	1990	1990
HK\$	HK\$	£	US\$
5,057	3,659	245	469
423	302	20	39
5,480	3,961	265	508
(706)	(865)	(58)	(111)
4,774	3,096	207	397
(2,440)	(2,518)	(168)	(323)
2,334	578	39	74
HK cents	HK cents	US cents	US cents
74.95	48.14	3.22	6.17
(adjusted)			
12.73	13.00	0.87	1.67
(adjusted)			
25.45	26.00	1.74	3.33
(adjusted)			
38.18	39.00	2.61	5.00

Consolidated Statement of Assets and Liabilities at 31 December 1990 (audited)

1989	1990	1990	1990
HK\$	HK\$	£	US\$
264,046	289,868	19,363	37,163
79,967	116,233	7,765	14,902
35,966	43,773	2,924	5,612
31,204	34,704	2,318	4,449
49,093	62,680	4,187	8,036
538,147	570,549	38,113	73,146
998,423	1,117,807	74,670	143,308
2,144	2,029	136	260
37,210	38,420	2,566	4,926
1,037,774	1,158,256	77,372	148,494
31,264	34,764	2,322	4,457
925,820	1,041,964	69,604	133,584
1,628	1,681	112	216
958,712	1,078,409	72,038	138,257
20,690	20,627	1,338	2,568
5,703	6,318	422	810
14,540	16,161	1,080	2,072
38,129	37,341	2,494	4,787
52,669	53,502	3,574	6,859
79,062	79,847	5,334	10,237
1,037,774	1,158,256	77,372	148,494

Closing of Register of Shareholders

Subject to the Scheme of Arrangement being sanctioned by the Supreme Court, the Register of Shareholders of HongkongBank is expected to close at 4.00pm on 28 March 1991 so that shareholders' entitlements to new shares in HSBC Holdings can be determined; shareholders who are already on the Register will not need to take any action and in particular they will not need to surrender share certificates relating to their holdings of HongkongBank shares. With regard to recent or current purchases of HongkongBank shares, in order to qualify for the new shares, all transfers (accompanied by the relevant share certificates) must by that time be lodged with the Registrars, Central Registration Hong Kong Limited, Hopewell Centre, 19th Floor, 183 Queen's Road East, Hong Kong.

Directors' Interests

At 31 December 1990 Directors and their associates had the following beneficial interests in the shares of the Bank.

J R H Bond	61,239	K S Li	2,038,505	H Sohmen	1,671,563
D E Connolly	641,531	D P H Liao	61,505	J E Strickland	78,270
F R Frame	86,137	Sir Kit McMahon	6,050	J J Swaine	951
J M Gray	58,380	C W Newton	8,091	J C C Tang	39,930
N R Knox	30,250	W Purves	114,388	G A Thompson	104,610
H C Lee	66,140	N M S Rich	14,520	P J Wrangham	140,372

H C Lee also had a beneficial interest in 13,500 ordinary shares of Hang Seng Bank Limited.

As Directors of Marine Midland Bank, N.A., J R H Bond, J M Gray, N R Knox, W Purves and G A Thompson each had a beneficial interest in 10 shares of common stock of that Company.

By Order of the Board
R G Barber, Secretary

12 March 1991

UK COMPANY NEWS

Direct route across the Channel

Richard Lapper on UK moves into the French insurance market

ALTHOUGH critics may say it is late in the day for insurers to shed their alleged complacency about Europe, three companies have launched ventures recently in one of the continent's most competitive markets - France.

The expansion by Sturge Holdings, Commercial Union and General Accident is in marked contrast to expensive retreats announced last year by their competitors.

Eagle Star sold its French general insurance subsidiary, Prudential disposed of its Belgian offshoot in September and in December Guardian Royal Exchange sold its loss-making Italian companies.

Sturge, the listed Lloyd's of London agency group, has opened a Paris operation, becoming the second Lloyd's agency to seek business directly in France. Commercial Union's French subsidiary began a direct telephone sales operation in France in November and General Accident hopes to follow suit later this year.

Like many Lloyd's agencies, the syndicates controlled by Sturge have traditionally waited for business to be brought to them in London by Lloyd's brokers.

But after steadily losing market share in the 1970s and 1980s to competition from Europe and US, a number of underwriters have become increasingly restive and are pressing to do more marketing efforts of their own.

A little more than a year ago FR White and Others, another Lloyd's underwriting agency, set up a branch of its Linkline marketing activity in Paris.

Sturge, the biggest Lloyd's agency group, followed suit early last year and towards the end of 1990 it won a place on the French insurance bourse allowing it to write local business more easily.

The bourse's centrally man-

aged premiums and claims payments system will allow Sturge to participate more freely in the co-insurance arrangements by which the French market typically writes industrial risks business.

Companies do not have to be members of the bourse in order to write industrial business but it makes it easier and can also reduce costs.

Mr Rainier Brousse, the director of Sturge's European affairs department, says the group is taking a long-term approach. He acknowledges that rates are too low at present.

Leading French industrial companies can buy desirable all-risk policies with premiums of about 0.025 per cent (0.25 per mille) of the insured value, less

French discotheques are a notorious target for protection rackets.

Nevertheless by keeping its costs low and with the backing of Lloyd's reputation Mr Brousse believes Sturge can gradually win business. Mr Guy-Antoine de la Rochefoucauld is the company's only employee in Paris at present and the company is run from offices providing managed services.

Both CU and GA are aiming to develop other general insurance business in Europe through direct sales. They will be combining advertising in the mass media with direct response telephone sales and a telephone-based claims service.

The companies are among the pioneers of such sales

it aims to launch this year. Both Mr Bernard Pottier, the chief executive of CU in France and Mr Bill Jack, the deputy general manager of GA, are firm believers in the extra efficiency and reliability of direct sales methods.

In the UK direct telephone sales methods can contain expenses to 25 per cent of premium income. That is several percentage points lower than the expense ratios typical among insurers retailing either through agents, as in France, or brokers, as in the UK.

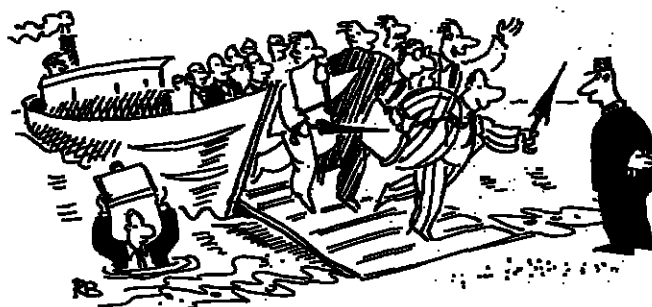
Mr Pottier is particularly encouraged by the experience of the rapidly growing French mutual companies. They have increased their market share of home and motor insurance from almost nothing thirty years ago to more than 50 per cent today.

By selling directly to the public the mutuals have been able to reduce their costs and offer cheaper policies. According to Mr Pottier in some cases such as motor insurance, the mutuals offer policies that are up to 30 per cent cheaper than those sold by their bigger competitors and operate on a cost basis that can be up to 40 per cent lower.

Both Mr Pottier and Mr Jack, who has spearheaded GA's direct marketing drive, believe direct writing allows an insurer to exercise greater control over the business and acquire and improve both retention rates and quality.

Successful direct sales techniques depend on effective advertising and an efficient back-up service to receive incoming calls from customers.

Mr Pottier says back-up is particularly important in winning the confidence of French consumers for whom the reassurance of face-to-face contact with a local agent is of perhaps greater importance than in other European markets.



than half the levels common in the UK.

It is hard, for example, to write a profitable industrial fire account. Indeed, most French insurers appear to be losing money on this business in order to win market share.

Mr Brousse recognises the danger that Lloyd's could be seen as a "bucket shop" by French brokers unable to place sometimes difficult risks elsewhere.

He has turned down, for example, an approach from an agent representing the owner of a chain of discotheques.

National & Provincial 12% lower at £88.3m

By David Barchard

NATIONAL & Provincial Building Society yesterday reported a 12 per cent decline, from £100m to £88.3m, in taxable profits for 1990.

The fall would have been even steeper if the society had not restated its 1989 profits, which were originally announced as £108m. It was the second year in succession that the society has restated the previous year's profits when announcing its results.

At the same time, assets grew by 9.5 per cent to £2.77bn. This was a modest performance by the standards of the industry and as a result, National & Provincial has slipped a place in the building societies league table and now ranks seventh by asset size.

Mortgage lending rose from £2.92bn to £2.49bn, an increase of 8 per cent which was again low by the standards of other large societies. Retail savings held with the society were £2.81bn, up from £2.6bn.

During the year, the society

was overshadowed by its decision, taken late in 1989, not to go ahead with a stock market flotation. Both its chief executive and its finance director changed.

The weak profit performance last year was partly caused by provisions against bad debts. There was an exceptional provision against funding initiatives for housing associations, in the area of group self-building.

Under the Building Societies Act if the value of properties in a self-build scheme falls below the loan value, the society must repossess the building and make provision against the loan as if it was a bad debt, even if the loan is still being serviced.

Mr Richard Newton, chairman, said that the society had not credited interest on any non-performing housing development loans during the year. There were additional provisions of £7.4m on other mortgage lending.

Property provisions see Cala plunge into the red

By James Burton, Scottish Correspondent

CALA, the Edinburgh-based housebuilder and developer, plunged into the red for the first time in its history in the six months to December 31 following provisions on its property development and finance sectors.

It warned that profits in the second half were unlikely to offset the first half loss but is maintaining the interim dividend at 1.15p.

Although the group made a trading profit of £1.59m (£5.00m), provisions and reorganisation costs totalling £2.5m (£2m) produced a pre-tax loss of £2.96m (profit of £3.03m). Sales were £23.61m (£24.28m).

Cala said its core businesses, housing subsidiaries in the south of the Highlands and Scotland, were profitable with reservations of new houses running at near budgeted levels, after write-downs made last year on land purchases. It hoped the reductions in interest rates would lead to increased demand, and said it

had been able to secure attractive new sites at above average margins.

However, it has run down its presence in the commercial property market in the south of England which it did not particularly improve for at least two years. Exposure would be limited by the year end to a building in Watford and a site for industrial development near Guildford which would be mortgaged and their values written down. Provisions in the 2000 sector totalled £2.7m.

Cala Finance, which arranges development finance for smaller residential developers, mainly in the south of England, lost an estimated £1.5m through the demise of one of its partners in Croydon and was running a number of difficult joint ventures.

The company will not finance any new joint ventures in the south and said that by the year end its exposure will be limited to two developments which are currently profitable.

NEWS DIGEST

Celestion recovery maintained

THE RECOVERY at Celestion Industries, the clothing, swimwear and audio group, gathered pace in 1990 and led to a pre-tax profit of £961,000.

In 1989 the group reduced its loss from £1.96m to £23,000. Earnings per share were 3.9p (losses 0.1p) and the dividend is stepped up to 1.2p (1p), the first increase for many years.

Celestion Textiles lifted sales 16 per cent to £21.3m (£18.43m) and operating profit to £1m (loss £1,000). The division is concentrating on the manufacture of intimate apparel, principally for Marks and Spencer.

Extraordinary provisions of £552,000 were made on the withdrawal from outerwear manufacture, the final element in the division's reorganisation.

At the Celestion Audio loudspeaker division, sales were up 7 per cent to £15.68m (£14.56m) and operating profit increased 22 per cent to £1.2m (£983,000).

SLIX swimwear sales were up 29 per cent to £4.62m (£3.55m) but operating losses of £586,000 (£382,000) were sustained largely because of the continued brand investment programme.

Improved margins as Everest climbs

Improved margins on its frozen foods operation enabled Everest Foods to double pre-tax profits in the half year to November 30 1990.

On turnover 11 per cent higher at £14.96m (£13.52m) profit came through at £1.47m (£716,000). Frozen chips and related potato products

accounted for £7.66m (£5.31m) of sales and £1.47m (£0.82m) of trading profit.

Mr Bob Gilbert, chairman, said the improvement in margins was the result of capital expenditure on production facilities and a flexible pricing policy to react to market conditions.

From earnings of 9.55p (4.65p) the interim dividend is 2.2p (2p).

Merchants Trust net assets dip 15%

THE MERCHANTS Trust reported a net asset value of 191.25p per share at January 31 1991 - a 15 per cent fall over the year.

Net revenue, however, increased from £9.1m to £10.42m for earnings of 10.18p (8.88p) per share. A recommended final dividend of 2.25p lifts the total by 1p to 9p.

Setback for American Trust

Both net assets and revenue at American Trust suffered a setback over the 12 months to January 31 1991. Sir Norman Macfarlane, chairman, said:

"The principal factor... was the decline of almost 15 per cent in the value of the dollar relative to sterling."

Net asset value, after deducting prior charges at par, emerged at 161.6p (180.8p). Net revenue fell a commensurate amount to £3.76m (£4.31m). Earnings per share dipped to 4.51p (£1.8p) but the recommended final dividend is lifted to 3.25p for a total of 4.7p (4.5p).

1990. Net asset value per share fell to 221.6p against 254.3p a year earlier.

Earnings per share improved from 1.04p to 3.82p and a dividend of 2.4p (0.88p), including a special payment of 1.4p, is proposed.

USDC Investment Trust assets fall

At the end of 1990 net asset value of USDC Investment Trust had fallen to 169.7p, from the 212.9p of 12 months earlier.

Gross income for the year came to £3.27m (£3.17m) while net revenue worked through at £2.82m (£2.58m).

That gave earnings of 4.98p (4.29p) and the proposed final dividend is 3.25p to raise the total to 4.25p (3.85p).

CMW's £373,000 exceeds forecast

CMW Group, the reconstructed architectural, planning and interior design concern, beat the profits forecast made at the time of its introduction to the

USM last November.

The group, which comprises the UK interests of Tribble Harris, UK following the disposal of its US businesses, reported taxable profits of £373,000 for the 12 months to end-November.

The result - achieved on turnover of £5.22m (£5.98m) - compared with profits last time of £541,000 and a forecast outcome of £350,000.

Clondalkin advances 17% to £11.87m

Clondalkin, the Dublin-based packaging and printing group, achieved a 17 per cent increase in pre-tax profits for the year to December 31, up from £10.06m to £11.87m (£10.74m). Turnover increased from £129.17m to £131.56m. Earnings per share advanced to 22.64p (19.41p) and a final dividend of 2.484p is proposed, bringing the total for the year to 4.056p (3.755p).

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UK COMPANY NEWS

BM bucks sector trend with near 44% advance

By Jane Fuller

THE STREAM of gloomy news emerging from construction-related companies was interrupted yesterday by BM Group, which reported a 43.6 per cent increase in pre-tax profit for the six months to December 31.

The advance, from £9.4m to £13.6m, came in spite of a near doubling of interest costs to £3.6m (£1.4m).

BM, which distributes and makes construction equipment and building products, last autumn took over Blackwood Hodge, the international distributor of earth-moving equipment. The deal valued heavily indebted Blackwood at about £55m and most of the payment was in new BM shares.

Blackwood was included in the interim figures for five weeks. Mr Roger Shute, BM's chairman, said it had contributed £30m to group turnover of £148.8m (£96.4m), but virtually no profit.

He catalogued the cuts and disposals going on at Blackwood, where annual turnover was likely to come down from £500m in 1989 to £300m.

● Nearly 1,000 jobs had been

cut. Added to 247 shed in a factory closure at BM's Wickham subsidiary, the combined workforce had fallen from 6,800 to 5,600.

● Creditors had been cut by £100m and stocks by £50m. The overhead reduction amounted to an annualised £15.4m. One-off costs totalled £11m, of which £8m had been taken above the line in the interim results.

● A 21-acre site at Northampton had been vacated and was due to be sold for £4.1m. Two smaller UK sites had also been closed.

● Two African subsidiaries had been sold and another nine were being disposed of.

● Operations in Hong Kong, Pakistan and other parts of the Far East and Asia were also being sold.

Mr Shute said the disposals would help to reduce bank borrowings of £108m, representing gearing of 95 per cent.

On BM's trading, he said the weakness in UK house building had been offset by growth in mining and road-related business. Sales were up in the UK,

North America and Australia. Fully diluted earnings per share rose to 11.3p (8.5p). The interim dividend is 1.6p (1.2p).

● **COMMENT**

After five years of rapid growth 1988-90's pre-tax profit of £24.1m was 10 times that of 1985-86. BM has shown that it was also ready for recession. The group's ability to counteract weakness in one area with growth elsewhere should be substantially enhanced by the Blackwood acquisition, particularly in North America, Australia, Belgium and Spain. Further progress is expected to be made in Australasia through cementing links with Japanese construction equipment interests. Sceptics, however, still wonder whether the previously intransigent problems at Blackwood will scupper the best-laid plans. The first part of the cure, rigorous pruning, is well under way. Debt reduction needs to follow and the gearing target is 70 per cent by June. Changing the culture away from turnover at all costs



Roger Shute: disposals to reduce bank borrowings

(sometimes a loss) will take longer. Meanwhile, Blackwood's 1 per cent margins will obviously drag down BM's 10 to 15 per cent. A forecast full-

N American losses and strong pound leave Logica down 22%

By Alan Cane

SIGNIFICANT LOSSES in North America coupled with adverse exchange rate movements depressed first half sales and pre-tax profits at Logica, one of the few large computing services companies still in UK ownership.

Turnover for the six months to December 31 was £35.5m, up just 5 per cent up on the same period last year while taxable profits fell 22 per cent to £4.72m (£5.02m).

Earnings per share dipped to 4.5p (6.2p), but the interim dividend is raised by 5 pence to 1.15p. "It means we feel we are well placed for the upturn when it comes" said Mr David Mann, group managing director.

He said that the strength of sterling over the past year had cast a shadow over the results that was not entirely justified. About half of sales were now made outside the UK. At constant exchange rates, total sales would have grown by 10.6 per cent compared to last year, slightly

ahead of the industry. On the same basis, UK revenues grew by 14.5 per cent, while sales in continental Europe and the Asia Pacific region were up 12.9 per cent and 17.6 per cent respectively. The company had grown strongly in the government and public utilities sectors.

North America remains a black spot for Logica, however, with revenues down 6 per cent in dollar terms which converts into a 23 per cent reduction expressed in sterling.

Mr Mann said operations there lost £1m in the first half of the year while a further £750,000 had to be set aside for restructuring costs. To compound the company's difficulties, the losses in the US cannot be offset elsewhere and as a result, the tax rate is expected to be 42 per cent compared with 37 per cent last year.

A new chief executive, Mr Bill Fello, had been appointed and the US company was now "moving in the right direction", Mr Mann said.

● COMMENT

Logica's star is looking a little tarnished at present, but it still manages to attract some of the more exciting projects. Contracts announced yesterday included a system to improve security on the London Underground which mimics brain activity and a voice command system for the European Fighter Aircraft. Mr Mann emphasised that the rest of the year would be difficult and that there were few signs that an upturn would take place before the fourth quarter; analysts are predicting pre-tax profits for the full year of £11m to £12m, which seems appropriately cautious given Logica's North American problems. There is concern that 48 per cent of Logica's sales are now accounted for by fixed price contracts, where it and other computer services companies have come to grief in the past. Mr Mann is confident, however, that Logica has the management strengths to cope.

Plaxton warns of further gloom after dive to £4m

By Clare Pearson

PLAXTON, the coach builder and motor distributor, yesterday warned there were even tougher times ahead for the UK coach and bus industry after it had fallen into a sudden recession last year.

Mr David Matthews, chairman, said 1991 was forecast to be the worst year on record for the industry. This was after Plaxton's coach division had plunged into a pre-interest loss of £1.15m in 1990 compared with a £6.66m profit previously.

That meant group pre-tax profits slumped to £4.2m, less than half the previous year's £8.72m.

Mr Matthews said: "Plaxton Coach and Bus is an efficient manufacturing business which has been adversely affected by the collapse of market demand caused by external measures designed to reduce the general level of inflation."

He said he did not expect the coach business to recover until well into 1992. The recession

had hit the company just as it was taking its first steps to reduce its reliance on the UK market and just before it had launched two bus products.

Jobs at the main Scarborough factory were reduced by 150 last autumn. The coach division's loss came on turnover of £108.31m (£105.74m).

But the motor division improved pre-interest profits to £6.12m (£4.69m), on turnover of £276.81m (£256.78m), in spite of the slide towards the end of

the year in UK vehicle sales, which had continued into 1991. Mr Matthews said margins were lifted by the sale of underperforming dealerships acquired with Henrys, the division's big acquisition in 1989. Pre-interest profit from business disposals rose to £2.82m (£737,000).

Interest charges took £3.58m (£3.37m). Mr Matthews said gearing had risen from about 40 per cent to 50 per cent by the year-end. He expected bor-

rowings to fall this year as heavy vehicle stocks were reduced.

Earnings per share plunged to 9.1p (20.1p). The final dividend is cut from 5.5p to 1.5p, making 4.5p (8.5p) for the year.

● Plaxton also announced yesterday that Mr Richard Battersby was resigning as finance director. It said this was unconnected with current trading problems. Mr Brian Chivers, previously Henrys finance director, is to take over.

StanChart to buy out minority

By Kevin Brown in Sydney

STANDARD Chartered Bank said it planned to offer minority holders AS22m (£5.4m) for the 25 per cent of shares it does not own in Standard Chartered Bank Australia.

The offer followed the announcement by the Australian subsidiary that its net loss had risen from AS4.18m to AS61.07m in 1990. The bank said its result would have improved significantly but for a tax bill of AS28.13m, compared to a credit of AS26.34m.

Mr Rodney Galpin, chairman of StanChart, said the group was seeking 100 per cent own-

ership to develop its Asia Pacific business, but would maintain the Australian subsidiary's domestic operations.

Mr Galpin said StanChart intended to inject new capital. The subsidiary had debt problems experienced by most Australian banks, and the group had to provide indemnities against Australian business worth AS76m last year.

The bank said the offer would be made through a proposed capital reduction which would cancel all shares held by minority owners. They would

receive 50 cents per ordinary and AS2 per preference share. StanChart said the offer price represented a 32 per cent premium to the most recent market quote for the ordinary shares and a significant premium to net asset backing. The preference offer values the shares at a 43 per cent premium to the market price.

Mr Galpin said about half the shareholders owned less than a marketable parcel of shares and had in practice been unable to trade. Only 1,000 preference shares had been traded since July 1989.

Strong & Fisher deeper in the red

By David Owen

Strong & Fisher, the leather company rescued last year by Hillsdown Holdings in a move which gave the food, furniture and property group 70.3 per cent of the outstanding shares, reported a £7.44m interim pre-tax loss attributable to a severe across-the-board market downturn.

This was against a loss of £847,000 in the six months to end-December 1989. Turnover tumbled by 36 per cent to £30.12m against £47.24m.

The bulk of the loss stemmed from a £8.28m exceptional charge relating to stock write-downs and a further increase in bad debt and restructuring provisions.

During the latter part of 1990 skin prices continued to fall and a number of overseas customers had severe trading difficulties, the company said. Trading losses were trimmed marginally to £1.2m (£1.31m).

No interim dividend was paid (2p). The group said that it was arranging a capital reduction exercise which would enable the payment of dividends "as soon as circumstances permit."

Acquisitions help boost Blagden 15% to £13.3m

By Michio Nakamoto

CONTRIBUTIONS from acquisitions and a wide geographical spread enabled Blagden Industries, which has interests in packaging, chemicals and industrial equipment, to lift profits more than 15 per cent.

Pre-tax profits for the year to December 31 rose to £13.35m from a previous £11.46m, while turnover increased to £218.06m (£193.67m).

The shares closed up 18p at 192p.

The group benefited from the acquisition of two protective equipment distributors in the UK and two packaging companies and a chemicals company in Belgium. These contributed approximately £11.3m of annualised turnover and £1m of annualised profits to last year's results.

Mr Tec Wilkinson, chairman, said he was very pleased with the purchases. The group had also had the advantage of not

being over-exposed to the UK market, he said.

The acquisitions, coupled with further capital expenditure, increased group borrowings to £26.1m (£21m), giving net gearing of 38 per cent (33 per cent).

All of the three main areas of business performed well and tight management controls enabled it to raise trading margins from 6 to 7 per cent.

The loss-making UK plastics blow moulding business was sold and there was an extraordinary pre-tax gain of £649,000 arising from the disposal.

Earnings per share rose to 13.6p (11.6p) and a final dividend of 5p (4.9p) is recommended, making a total of 9.5p (9.1p) per share.

With a strong balance sheet, Blagden plans to continue expanding through acquisitions, with a further distribution business in continental Europe a strong possibility.

Domestic & General lifts profits 46% at midway

By Richard Lapper

IN SPITE of the slowdown in retail sales, Domestic & General, which insures domestic appliances against breakdown, reported a 46 per cent increase in pre-tax profits at the interim stage.

In the six months to December 31 1990 profits rose to £2.13m. Earnings were 19.85p (12.94p) and the interim dividend is up to 4.5p.

Premium income increased to £14.53m (£9.86m), with domestic appliances accounting for 98 per cent of the total. Premiums from legal expenses and other insurance business declined from £1.05m to £292,000 following the sale of the legal expenses business to

a Sun Alliance subsidiary.

Mr Martin Copley, chairman, said retailers were selling D&G products "harder than ever" and the company had won a good response from its efforts to increase sales via direct mail. During 1990 the company mailed out 2m mailshots and planned to mail 2.5m potential customers in 1991. Between 10-15 per cent of those mailed had eventually bought D&G policies.

Underwriting profit on its domestic appliance business was £4.06m (£2.13m). Reflecting high interest rates investment income rose by 22 per cent to £2.24m. Expenses grew by over 8 per cent to £4.56m.

£10.4m placing by Cresta

CRESTA Holdings, the Isle of Man-based elderly care group, is to raise £10.4m by the issue of 30.72m shares.

They have been placed at 35p each and shareholders have the right to clawback at that price on a 3-for-5 basis.

The group has now disposed of all its non-core businesses with the exception of a small estate agency, and the new money will enable it to fund its planned expansion of Cresta Care, its core nursing home division.

Accompanying the issue, figures for 1990 showed pre-tax profit down from £6.66m to £5.3m on turnover of £36.61m

(£47.14m), reflecting the rationalisation programme.

Earnings were 8.7p (11.6p) and the final dividend is 1.5p for a total of 2p (1.8p).

CrestaCare accounted for 42 per cent of group profits in 1990, and is expected to provide 90 per cent this year.

Existing commitments will take the number of beds from 1,000 to 1,400, and it is planned to further increase that to 1,800 during the next 12 months, with particular emphasis on the north of England.

Of the new shares, 18.75m have been placed with ASIL, an investment and property company in Hong Kong.

Environmental demand boosts RPS

Increasing demand for environmental services resulting from tighter legislation and improved consumer standards lifted profits and turnover at RPS Group, the environmental consultancy.

The pre-tax figure advanced

to £1.74m (£1.72m) for 1990 on turnover up from £8.76m to £9.65m.

Earnings per share stood at 9.49p, against 8.39p, and the increased recommended final dividend of 1.8p makes a total of 3.2p (2.8p).

GLYNWED.

THE RESULTS.

RESULTS FOR YEAR ENDED 30 DECEMBER 1990

	1990	1989
Turnover	£1,099.8m	£1,125.2m
Operating Profit	£87.8m	£105.3m
Pre-Tax Profit	£70.3m	£93.3m
Earnings per Share	23.38p	30.66p
Dividend per Share	11.65p	11.65p

International. Plastics. Metals. Engineering. These are the words to describe Glynwed today.

Around a third of sales are now overseas. Glynwed's fastest growing business is in advanced thermoplastic systems for industrial and utilities, worldwide.

The Group's expanded metals distribution network is making it a leading European supplier of stainless steel.

Glynwed has invested significantly in growth markets in recent years, and is well placed to meet the international challenges of the future.

Glynwed International plc

THE 1990 REPORT & ACCOUNTS WILL BE POSTED TO SHAREHOLDERS IN MID-MAY. FOR A COPY PLEASE WRITE TO THE GROUP SECRETARY, GLYNWED INTERNATIONAL PLC, NEWLANDS HOUSE, NEW OVERTON ROAD, BUELTON, WILMINGTON BN2 3AE.

Prices for electricity determined for the purposes of the electricity price index and are expressed in pence per kWh.

Period	1990	1989
1/10	10.95	10.95
2/10	10.95	10.95
3/10	10.95	10.95
4/10	10.95	10.95
5/10	10.95	10.95
6/10	10.95	10.95
7/10	10.95	10.95
8/10	10.95	10.95
9/10	10.95	10.95
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7/12	10.95	10.95
8/12	10.95	10.95
9/12	10.95	10.95
10/12	10.95	10.95
11/12	10.95	10.95
12/12	10.95	10.95

Prices are determined for every half-hour in accordance with the electricity price index and are expressed in pence per kWh. Prices are determined for every half-hour in accordance with the electricity price index and are expressed in pence per kWh. Prices are determined for every half-hour in accordance with the electricity price index and are expressed in pence per kWh.

BUSINESS AND THE ENVIRONMENT

Clean buildings
Open their doors

by John Hunt

During the current surge in public concern for the environment the "green" campaigners have been powerful everywhere, cars, sewage plants and local oil and chemical industries. Against attention is now switching back to a less obvious source of environmental damage - our buildings and the buildings in buildings.

What is the target for "green" buildings? The Building Research Establishment (BRE) a government agency at Watford, Herts, make working on designs for buildings that can withstand the effects of climate change. It is investigating the old idea of rising sea levels on would undulations and assessing the impact of the fabric of buildings from the storms that would accompany global warming.

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rather than tougher regulations. A Bream certificate consists of the number of environmental targets, and developers are given credits depending on how many targets they meet.

Wasteful use of lighting and heating means that more fossil fuels are burnt in power stations, thus releasing more carbon dioxide into the atmosphere. Energy can be conserved through more efficient heating units, improved light bulbs and higher standards of insulation.

Use of substitutes for CFCs is one of the main aims of the Bream system. In 1986 it was estimated that air conditioning accounted for 38 per cent of UK demand for CFCs in refrigeration. They are also used in producing some insulating materials.

The choice of timber has an impact on the conservation of the tropical rainforests. Softwoods are mainly used in construction but contractors are urged that tropical hardwood materials should come from forests maintained in a sustainable way.

The spread of new building development in the countryside has caused intense controversy. Bream seeks to ease the pressure on green land-use by awarding credits for building on land reclaimed from industrial sites or waste tips.

The internal environment of buildings - the so-called "sick building" syndrome - is attracting great attention. Formaldehyde emissions from chipboards, adhesives and some cavity wall insulation can cause eye and throat irritation. Barely noticeable flickering of fluorescent lighting contributes to headaches and eyestrain. Credits are given in the scheme for the use of materials which avoid these risks.

But such voluntary programmes are greeted with scepticism by the green movement. Fiona Weir, atmosphere campaigner at Friends of the Earth, would prefer tighter building regulations to ensure that all developers rapidly meet tougher environmental standards. "There are certain things you just cannot leave to market forces and this is one of them," she said.

Big-ale of 0 to 10. A computer if it shows householder's energy running costs on a scale of 0 to 10. A computer if it shows householder's energy running costs on a scale of 0 to 10. A computer if it shows householder's energy running costs on a scale of 0 to 10.

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LEGAL NOTICES

Welland Group PLC
Welland Homes West Ltd
WSJ Construction Ltd
WSJ Development Ltd
WSJ Holdings Ltd
WSJ Properties Ltd
WSJ Services Ltd
WSJ Systems Ltd
WSJ Technology Ltd
WSJ Training Ltd
WSJ Consulting Ltd
WSJ Research Ltd
WSJ Marketing Ltd
WSJ Distribution Ltd
WSJ Logistics Ltd
WSJ Finance Ltd
WSJ Insurance Ltd
WSJ Legal Ltd
WSJ HR Ltd
WSJ IT Ltd
WSJ Telecom Ltd
WSJ Media Ltd
WSJ Creative Ltd
WSJ Design Ltd
WSJ Production Ltd
WSJ Publishing Ltd
WSJ Advertising Ltd
WSJ Promotion Ltd
WSJ Events Ltd
WSJ Entertainment Ltd
WSJ Sports Ltd
WSJ Leisure Ltd
WSJ Hospitality Ltd
WSJ Retail Ltd
WSJ Wholesale Ltd
WSJ Manufacturing Ltd
WSJ Engineering Ltd
WSJ Construction Ltd
WSJ Services Ltd
WSJ Systems Ltd
WSJ Technology Ltd
WSJ Training Ltd
WSJ Consulting Ltd
WSJ Research Ltd
WSJ Marketing Ltd
WSJ Distribution Ltd
WSJ Logistics Ltd
WSJ Finance Ltd
WSJ Insurance Ltd
WSJ Legal Ltd
WSJ HR Ltd
WSJ IT Ltd
WSJ Telecom Ltd
WSJ Media Ltd
WSJ Creative Ltd
WSJ Design Ltd
WSJ Production Ltd
WSJ Publishing Ltd
WSJ Advertising Ltd
WSJ Promotion Ltd
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WSJ Entertainment Ltd
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WSJ Retail Ltd
WSJ Wholesale Ltd
WSJ Manufacturing Ltd
WSJ Engineering Ltd

NOTICE IS HEREBY GIVEN, pursuant to section 40(2) of the Insolvency Act 1986, that a meeting of the creditors of the above-named companies will be held at the offices of the Insolvency Practitioner, Messrs. [Name], of [Address], on [Date] at [Time] for the purpose of considering the proposed arrangement for the reconstruction of the above-named companies and for the purpose of appointing a liquidator or receiver of the assets of the above-named companies.

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How does a chemical company survive when it is forced to phase out its main product because the substance harms the environment? Associated Octel, which has lost its battle against anti-lead campaigners, believes it can still have a commercial future by exploiting its technological base.

Associated Octel has been making organo-metallic compounds at Ellesmere Port on Merseyside since 1958. It uses a process originally installed by ICI on UK government orders to safeguard the national supply of compounds to stop "knocking" in engines running on low-octane petrol.

Until 1988 it was owned equally by five major oil companies. It makes a mixture of two lead compounds, tetra ethyl lead and tetra methyl lead, which refiners add to petrol. In 1990 the mixture accounted for 90 per cent of Octel's earnings of £300m.

In 1983 the government bowed to campaigners by agreeing to a gradual phase-out of lead additives to petrol. For the first time in 45 years Octel executives began to think seriously of diversifying into other chemicals.

Octel's parent companies, however, were not encouraging. Each had its own chemicals business and claimed that Octel would be competing with them if it diversified. Mike Lord, manager responsible for developing its fuel additives business, recalls the disappointment of having one opportunity turned down only to see it exploited elsewhere.

Freedom to diversify came only in 1988, following the purchase of a majority shareholding in Octel by the fast-growing US specialty chemicals company Great Lakes.

For Great Lakes, Octel is both a company with a sound technology base and a good bridgehead into Europe for specialty chemicals after 1992, explains John Little, Octel's managing director.

Little believes that the basic business will disappear during the 1990s, but meanwhile can provide abundant cash to rebuild it around different products. US experience suggests that as the refineries reduce the amount of lead additive used, the value of those compounds will rise.

The company has continued to invest heavily in new technology for its additives - new sodium and bromine technology, for example - which gives Little confidence that the company can be competitive in

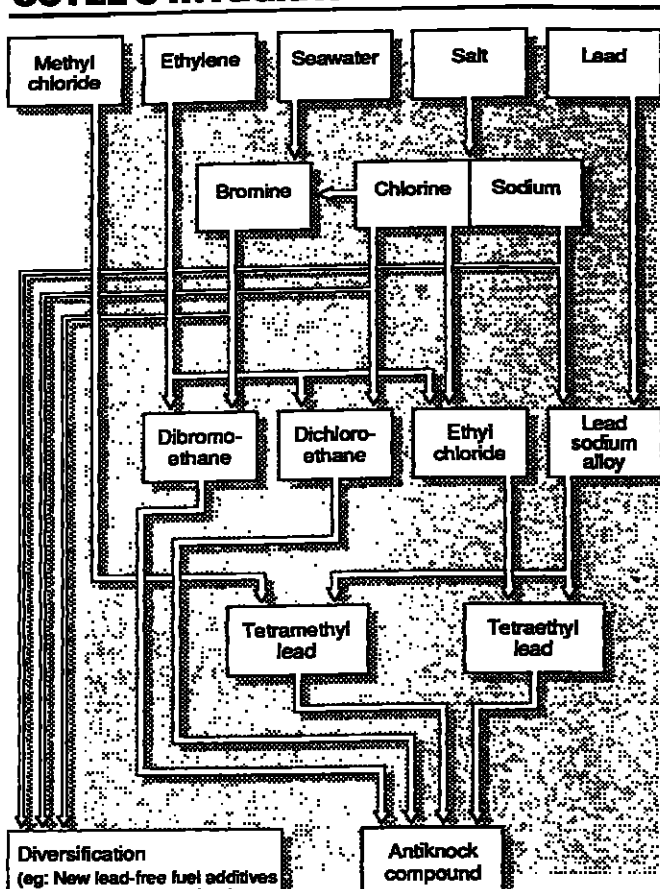
making new products. What it lacked was an innovative team to generate new ideas. The one acquisition agreed by its previous owners was Palmer Research Laboratories, a contract R&D organisation in Wales, specialising in chemical synthesis and small-scale manufacture of fine chemicals for such companies as Beecham and ICI.

Bob Tyson, director of corporate technology, manages a combined R&D team of 200,

David Fishlock reports on a chemical company forced to phase out its main product

It's a hard
knock life

OCTEL'S INTEGRATED CHEMISTRY



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are free from lead. Peter Wright, manager responsible for new chemicals, sees the metal sodium as one big opportunity. "We want to free its real potential," he says. Octel needs molten sodium as an intermediate in making its lead additives, and claims to be Europe's biggest (and Britain's only) producer.

Many see sodium as an intrinsically hazardous substance, remembering how a fragment spits and splutters in water. For Octel it is simply a commonplace metal of which it refines 25,000 tonnes a year. Sodium ingots can be handled safely with dry cotton gloves.

As a silvery fluid - at the boiling point of water - it is a powerful reducing agent for driving chemical reactions. Wright contends that, because it is cheap, sodium would be used more widely in the chemical and pharmaceutical industries if it could be safely dispersed as fine droplets to offer a much bigger surface to react with other chemicals, and tighter control over the reaction. The trick is to keep the dispersion stable. Octel has developed a process for producing stable dispersions of micron-sized droplets, opening opportunities both in building new organic compounds and in the rapid breakdown of toxic organic wastes.

Another Octel feedstock is bromine, extracted from Irish seawater on a scale unmatched elsewhere in Europe. Already it sells liquefied bromine as a pharmaceutical feedstock and as an intermediate in making agro-chemicals, totalling 15 per cent of its bromine capacity.

Often the bromine can be recovered later in the process, and recycled. Wright's scheme is that instead of shipping a hazardous reagent Octel itself should undertake the bromine reactions for clients at its production site, and "keep the bromine off the roads".

Mike Lord, responsible for developing the fuel additives business, sees opportunities in additives free from lead, for different purposes. Diesel oil is decades behind petrol in using additives, he contends. Since 1985 Octel has partnered ICI in developing additives to upgrade diesel fuel. Lord says these chemicals - such as octyl nitrate - are "basically explosives", added at up to 1,000 parts per million to raise the cetane rating.

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Copper mine with
a deep green finish

By Kenneth Gooding

Environmental protection measures will account for at least 70 per cent of the \$20m-\$30m (£10m-£15m) that Flambeau Mining will spend to develop a copper mine at Kusk City, Wisconsin.

The copper mine will have a relatively short life and reclamation plans call for all waste material to be returned to the open pit in its original sequence.

The site will then be replanted with grass and trees to encourage local wildlife to move back into the area. There will be savannah grass to appeal to deer, for example, and a 7.5-acre wetland over one end of the site.

Flambeau Mining will be expected by the state of Wisconsin to post a \$9m bond to cover the cost of reclamation and will then be permanently responsible for monitoring and maintaining the site.

Flambeau's copper project presents a prime example of how environmental pressures are speeding up the process whereby the world's mining companies are merging into bigger and fewer entities.

Larry Mercado, vice president and general manager of Flambeau, suggests that a small mining company could not even have afforded to complete the permitting process which has been dragging on for more than 20 years.

Certainly no small mining company would have been able to commit itself to taking permanent responsibility for the mine site. This issue is becoming increasingly important because often in the past companies left mines where the ore has run out to become blots on the landscape and, sometimes, dangerous.

Flambeau's copper deposit was discovered in 1968 and the company's initial proposal was for the pit to be turned into a lake after mining ended. This idea was not well received and the project was shelved in the late 1970s.

It was reactivated in 1986, since when Flambeau has gradually worked its way through various tortuous procedures and faced considerable opposition - although Mercado suggests that at least 80 per cent of the local population are in favour and welcome the 60 jobs that will be

created. The deposit is located in northern Wisconsin, near a river in a heavily wooded area where there is no industrial activity. Flambeau's mine will be the first to be built in the state of Wisconsin since the Shullsburg lead-zinc mine closed in 1979.

Nevertheless, in January this year Wisconsin's Department of Natural Resources finally gave Flambeau the go-ahead. There remains the possibility that individuals might challenge this decision in court, but Flambeau hopes to start construction this coming summer and to ship the first ore from the mine in the autumn of 1992.

Flambeau remained determined to get the mine into production through the years because the deposit is exceptionally rich. The ore contains 10.5 per cent of copper whereas most mines would be happy with 2 or 3 per cent. Unfortunately for Flambeau, there is only 1.5m tonnes of ore. As this will be dug out at the rate of 320,000 tonnes a year, the mine has a life expectancy of only six years.

The deep pockets financing Flambeau through the complex permitting processes belong to its parent, the Kennecott Corporation. For much of the time Kennecott was owned by oil companies, firstly Standard Oil (Sohio) and then British Petroleum (BP). In 1989 ownership switched to the RTZ Corporation of the UK, the world's biggest mining group.

Because one will not be produced at the mine but shipped elsewhere, the biggest cost Flambeau faces is for a treatment plant to ensure that the water discarded by the mine is pure, then sent to be found in nature. And, by agreement with the local population, the open pit from which the ore is to be mined will be landscaped to a depth of 225 feet. It will also be 2,400 feet long and 500 feet wide which will make it a relatively small open pit compared with others in the industry.

Mercado says that Flambeau won the right to dig copper out of Wisconsin by "coming up with some innovative ideas to show that mining can be carried out in an environmentally friendly way."

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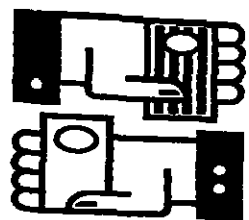
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FINANCIAL FUTURES AND OPTIONS

Wednesday March 13 1991



European exchanges are offering more opportunities for futures and options traders as the

influence of the once dominant US markets fades and competition from over-the-counter products increases. **Deborah Hargreaves** looks at a growth industry

Derivatives come of age

THE futures industry in Europe is on the brink of substantial growth in the next 10 years as users become more confident of building derivative instruments into their portfolios.

But cutthroat competition between brokerage houses and exchanges and a struggle to push new products on to unprepared retail customers could further harm an industry with an already poor image.

The growth of derivatives trading in Europe is scaring the Chicago exchanges, bruising the confidence of these institutions which led the industry from an almost unsalable position.

They are struggling to find new products that will stimulate trading volumes and have even lessened the competition which once existed between them.

The stranglehold Chicago once held on the derivatives industry has been loosened and business has spread more evenly throughout the world. However, electronic trading could concentrate that volume again on one screen system. At least, that is what the Chicago Mercantile Exchange is hoping.

The exchange joined with Reuters and, later, the Chicago

Board of Trade to develop such a system: Globex. It is promoting it as an industry standard which could embrace the world's leading futures products.

But the world has become impatient with its repeated delays and many exchanges are pushing ahead with their own systems.

In any case, it is not yet clear if electronic trading will be in the vanguard of the 1990s. Industry pundits who predicted that all futures trading would move on-screen over the next decade have been less audible as new electronic exchanges have suffered their technical problems and traders have gone cold on Globex.

The recent growth of exchange trading, whether on-screen or open outcry, has proved no match for the business that is growing in the unregulated twilight away from traditional exchanges. In Europe and the US, over-the-counter business is growing at a faster rate than volume in exchange-traded products - although their comparative importance is difficult to judge because of the lack of available information about off-exchange trading.

Off-exchange products can



be tailor-made to the individual's requirements. Investors can make huge trades in a far less public way as long as they have confidence in their counterparty's creditworthiness. All this can often be done at fees below the commissions charged on an exchange. These are the attractions of a flexible over-the-counter market.

The swaps market is probably the best example of the phenomenal growth potential of these sorts of products. The volume of swap transactions

between banks and investors has almost doubled each year since its inception in the early 1980s and the value of swaps business now stands at more than \$1,000bn.

But the long-running row in London over the legality of interest rate swaps which were undertaken by the London Borough of Hammersmith and Fulham, highlights the susceptibility of these new markets to legal uncertainty. The Hammersmith and Fulham case was finally settled in the

House of Lords which ruled all UK local authority swap transactions illegal.

International banks have been enraged by the uncertainty which has enveloped the UK interest rate swaps market since the start of legal action against Hammersmith and Fulham.

But this has been a problem between professionals and the difficulties would be magnified if retail customers were involved.

In the US, the futures regula-

tor, the Commodity Futures Trading Commission, has made several, albeit rather blundering, attempts to bring some of these hybrid off-exchange products under its jurisdiction. But trade between professionals is expected to remain exempt from regulation.

The people who need protection in this amorphous area are the unsuspecting retail investors, increasingly targeted by brokers trying to sell an array of derivatives. Equity warrants, covered stock warrants and stock index warrants are big business for brokers pitching to individual investors.

But these products are often overpriced and illiquid. Retail clients can find themselves stuck with a losing investment for which the brokerage house will not make a market. And this is an area which has held out the temptation of growing profits for many beleaguered brokers.

It is virtually without regulation, which means that sharp practices could often go undetected.

In the UK, the Securities and Investment Board has done little to address these problems in the warrants market although it has stressed that private investors must be protected against losing all their money on derivatives.

This has been most evident in the SIB's efforts to draw up rules for new futures and options funds which will probably be launched in the UK next year.

These regulations will create a new market in the UK by allowing futures and options funds to be marketed to individuals as a kind of unit trust. Many companies are positioning themselves to enter that market, but it remains to be seen if there will be much demand for this plethora of new products. Awareness and knowledge of derivatives in the UK is still at a low level and the markets must try and shed their popular speculative image.

Whatever demand there is for futures and options funds, their creation will add to volumes on the London International Financial Futures Exchange (LIFFE) which is already outpacing growth at its French rival Mafif. In addition, many UK pension funds are on

the brink of turning their attention to derivatives and some leading players such as investment managers Fidelity are planning to move into the markets this year.

LIFFE has a unique opportunity in its merger, now expected towards the end of the year, with the London Traded Options Market to create a derivatives superstore with a variety of hybrid products. It will dent London's position as a centre for financial derivatives if it allows technical disagreements over how to combine the two clearing systems to defeat the plans for amalgamating the two markets. The position of London's exchanges in equity derivatives has long been weak, a fact which has been further emphasised by the unexpected success of some continental exchanges in the field.

Europe is proving a rich region for futures business as a variety of small exchanges compete in cross-border trading.

The Deutsche Terminbörse, Germany's screen-based futures and options exchange, has mounted a challenge to LIFFE's German bond futures contract. But so far, it has

done little to dent the London exchange's supremacy.

Competition in derivative has always helped to prompt innovation and, in any case, Frankfurt has a strong argument for trading its own bond product.

But the creation of many copycat contracts across the world's leading exchanges runs the risk of splitting liquidity and providing a poorer service for investors.

The Chicago Board of Trade has revealed plans to launch a range of European bond contracts, most of which are already traded elsewhere. Similarly, the CME and the CBOT were in competition to launch Japanese stock index futures and the CME's contract is the only one with much success. However, it is increasingly questionable if there is a need for products to be duplicated at different exchanges, particularly if they are in the same time zone. It could be a waste of users' money and a case of competition for its own sake.

The two Chicago exchanges are talking about combining some of their functions in a bid to cut costs, but a full-scale merger between the two is probably a long way off.

The CBOT and the CME, whose origins date back to the last century, have been engaged in a turf battle almost from their inception. The fact that they have now drawn closer to one another, recognising that the real competitive threat will come from outside the US, is a measure of the growing maturity of the derivatives industry in Europe.

IN THIS SURVEY

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■ Barbara Durr records a plea for a level playing field in the US; the outlook for unit trusts is examined by Jim McCallum Page 3

■ FT writers investigate the progress made by the derivatives industry in attracting investments from US and UK pension funds Page 4

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FINANCIAL FUTURES AND OPTIONS 2

Tracy Corrigan examines over-the-counter products

Where innovation prevails

over-the-counter options market has often led the way in offering innovative, if off-price, derivative products. But high profit margins local, coming under threat, as against banks try to claim a backside of the business.

What is often the case is that banks are often the ones to buy or sell an option, rather than the other way round. With the market for options being so large, banks are often the ones to buy or sell an option, rather than the other way round. With the market for options being so large, banks are often the ones to buy or sell an option, rather than the other way round.

tack. Their new strategy is to present themselves as advisers who can manage the whole range of their clients' risk and market exposure.

Europe's large companies are sophisticated users of interest rate and currency options, which allow them to hedge against potential losses through fluctuations in exchange and interest rates, and many now have treasury departments which can structure hedges.

By structuring options to an individual company's particular requirements, there is a trend towards more complex, and lucrative, business.

Bankers marketing OTC options also concentrate on products which are harder to structure and differ from products available on the exchanges. Sometimes it is merely a question of longer maturity or more unusual underlying products.

But new types of option are becoming more broadly used, for example, "average-rate" options, which give holders the right to buy or sell an underlying market not at a pre-determined strike price but at the average price over the duration of the option; "look-back"

options, which give the right to buy or sell at the lowest or highest price an index or commodity has reached during a period of time; and "you choose" options, which may be used as either a call or a put during, say, the first year.

Banks see the market growing so that investment managers also take constant advice on risk management of portfolios.

In this market, a strong, preferable AAA credit rating is an increasingly important asset for banks which write options, as fund managers in particular have become very conscious of counterparty risk. For various reasons, banks are looking for ways to circumvent the problem, by using special-purpose vehicles to write options, for example.

But so far fund managers have been slow to enter the market partly because of their innate conservatism and also because they are regulated in their use of such products. It remains a largely untapped market for banks, hence their enthusiasm for the business. However, their awareness of the use of such products appears to have increased during the Gulf crisis, when volume in equity index products rose sharply, as the market's volatility increased.

Equity-linked products still provide banks with the healthiest returns. In particular, high margins are built into retail-targeted products such as covered stock warrants.

But business has suffered from the poor performance of covered warrants in the past year. Apart from their weak showing, the main complaint against covered warrants has been their extremely poor liquidity, with holders sometimes unable to find any price for their paper.

Covered warrants are so called, because the shares which holders receive, if they exercise their warrants, already exist. Thus, the issuer of covered warrants is usually a bank which has bought up underlying shares. (On the other hand, when companies issue warrants, usually in conjunction with bonds, it is generally a means of raising funds by creating new shares if the warrants are exercised.)

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The retail-oriented warrants market is renowned for charging investors a lot. More sophisticated institutional investors generally will not buy covered warrants, considering them too expensive. For banks, apart from the initial risk, the technical expertise involved is limited.

But retail investors, via brokers in the UK and banks with strong European networks, have bought substantial amounts, and have not generally done well.

Nevertheless, the recent rebound in stock market prices is nourishing hopes that the covered warrants market, dormant since the start of the Gulf crisis, will return to form.

In the UK, at any rate, forthcoming legislation allowing unit trusts specialising in futures and options may shift retail investor interest towards new types of products expected to offer greater liquidity.

It is not yet clear whether increasing competition will mean a better service for investors. Not all banks are willing to make a market and provide fair value in trading. Margins are often extremely wide, and investors who have participated through warrant funds may not have fared better.

But experienced market participants agree that the market for covered warrants will inevitably make a comeback, as soon as there is another strong bull market for equities.

Simon London looks at approaches to financial risk management

How returns are protected

THERE are as many approaches to risk management as there are corporate treasurers. This is evidenced by the way in which treasury services are organised within a company and the range of risk management products used.

At one end of the spectrum, big companies often organise treasury operations as discrete profit centres within the group. These finance subsidiaries supply risk management services to group trading companies.

Tate & Lyle and Cadbury Schweppes are examples of this approach. It is notable that both have long experience of trading in the commodities markets for sugar and cocoa. This experience in commodity risk management has encouraged the board to embrace financial risk management.

For example, Tate & Lyle International Finance has been providing treasury and banking services to group companies for the past five years. It now employs 13 people including traders, bankers and systems support engineers.

According to Mr David Creed, Tate & Lyle group treasurer, the finance company's main function is to supply liquidity to the group.

One side of this involves borrowing centrally and lending on to subsidiaries. Indeed, Tate & Lyle International Finance charges a margin of 0.375 per cent on monies lent within the group.

The other side to liquidity management is risk management. The company uses a range of swaps and forward rate agreements to hedge interest rate exposures, and will write its own options to cover currency exposures.

For example, a Tate & Lyle subsidiary with a stream of dollar income might hedge its currency translation into sterling by buying a currency option written by Tate & Lyle International Finance.

Cadbury Schweppes employs similar methods, preferring to write its own options contracts than buy tailor-made options from banks or use exchange quoted instruments.

However, not all companies have the resources to create a treasury department that can write its own risk management products. Smaller companies have to choose between buying

over-the-counter options from outside institutions or buying exchange-listed products.

According to Mr Derek Ross, head of financial management consultancy at Touche Ross, medium-sized companies face problems gaining access to OTC and exchange-listed risk management products.

For example, while all the big clearing banks offer treasury services, the distribution of these services through the branch networks is of variable quality.

Similarly, while the derivatives exchanges can be accessed through a broker, the logistics of starting to use traded options or financial futures can be daunting.

The management and settlement procedures of exchange-listed products are a hurdle for many smaller companies.

For this reason relatively few manufacturing or service companies are confident about operating in the futures markets. The practice of putting up capital as a margin, which may have to be increased if the future performs badly, discourages many treasurers. "It is quite possible to receive several calls in one week asking for an increase in margin," commented one treasurer.

However, a small but increasing number of companies is using financial futures to hedge interest rate risk. For example, Redland, the construction materials group, has been actively managing short-term interest rate exposures in the futures market since the early 1980s.

Mr Stephen East, group treasurer, says the headaches are solved by having direct-debit and administration arrangements with a bank.

Some companies have been burned by bad experiences with exchange options and prefer to buy tailor-made products from banks. Although there is nothing wrong with the exchange products, buying the right product can be difficult.

One treasurer tells the horror story of being sold US-style options (exercisable at any time) when he thought he was buying European-style options (exercisable only at maturity).

This is an extreme example, but for these reasons many treasurers still rely on forward rate agreements arranged

through banks, preferring to lock in at a given interest rate or exchange rate rather than use more complex option-style instruments.

However, Mr Ross noted companies are often blind to some of the drawbacks of buying risk management products from banks. For example, the bank selling an OTC option is taking on an exposure against the buyer. This can mean other lines of credit are then constrained.

Moreover, since the bank has to set aside capital against this exposure, the cost of the risk management product will include the cost of capital.

Neither of these drawbacks exist with exchange-listed

selves against the risk of an adverse currency movement, yet to take advantage of any advantageous rate movements.

"We are very cautious about locking in to any given rate. You can never buy economic uncertainty," commented Mr John Groux, director of treasury at Cadbury Schweppes.

Even among those companies which are comfortable with options products, there is a big philosophical divide between those corporate treasurers who hedge all their currency and interest rate exposures and those who hedge only when they foresee an adverse rate movement.

Proponents of the former position maintain that the decision not to hedge an exposure is effectively a decision to take a position in the market. However, Mr Ross warns against basing risk management on accounting numbers rather than overall business risk.

For example, a petrochemicals company buying raw materials in dollars may choose to buy dollars at a known forward rate. However, this is counter-productive if the price of the raw material is itself correlated to the strength of the dollar.

Rather than placing the company at a competitive disadvantage, it may even put it at a disadvantage if its competitors have done nothing.

Some companies have been burned by bad experiences with exchange options.

products, where the credit risk is ultimately assumed by all market participants.

The choice of risk management products by companies also reflects different approaches to risk management itself. Bigger companies often maintain the tools available to companies now make it unnecessary to lock into a forward currency or interest rate.

Option-style products allow companies to protect them-

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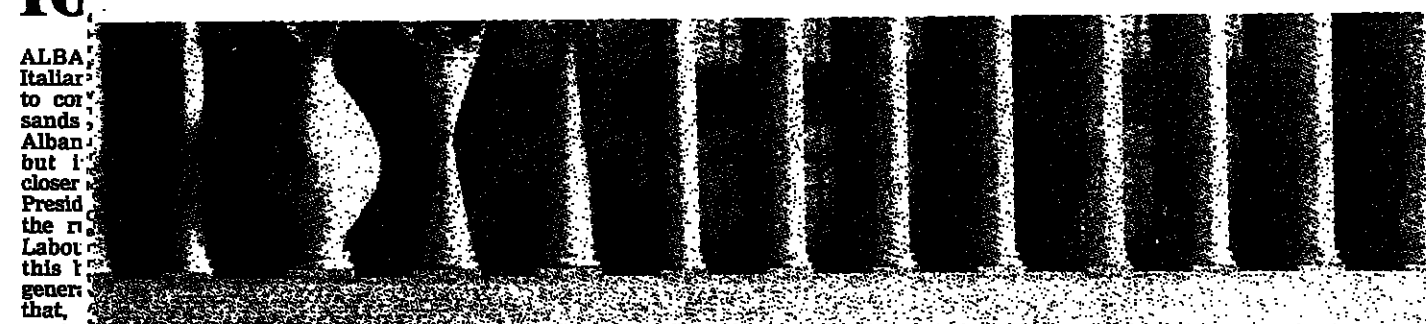
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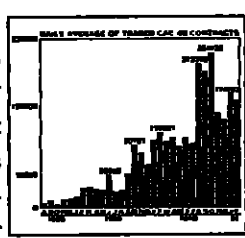
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FINANCIAL FUTURES AND OPTIONS 3

Barbara Durr on the growth of US off-exchange derivatives

Plea for a level playing field

FOR Mr John Sandner, the new chairman of the Chicago Mercantile Exchange, the proliferation of off-exchange derivatives is a prelude to catastrophe. He has dark imaginings of a vast scandal in which clever hucksters of unregulated, exotic financial instruments cheat unwary "Mom and Pop" investors.

While the CME and the Chicago Board of Trade are concerned about the public harm that could come from such products, they are clearly most worried about the competitive challenge these present to exchange-traded futures.

Mr Thomas Donovan, president of the CBOT, says that while the competition is difficult to quantify, it is enormous and will grow, particularly as new future-like instruments are developed.

The CBOT and the CME have chosen for the moment to fight the expansion of ever more creative, off-exchange financial derivatives by demanding that these products be brought under the same regulatory scrutiny as futures that trade on exchanges. "We want a level playing field," said Mr Donovan.

The exchanges have thus vehemently opposed the loosening of the Commodity Futures Trading Commission's (CFTC) exemption authority contained in the proposed Commodity Futures Trading Practices Act of 1991. Under a provision of the legislation, the CFTC could exempt from its regulatory authority certain hybrid financial products. It is also specifically directed to exempt all swaps, a blanket exception which additionally annoys the futures exchanges.

The CFTC has submitted refinements to the legislation that propose, among other things, a test of a derivative to determine whether 50 per cent or more of its return comes from commodity play. If so, it would claim authority over the product. If not, it could go unregulated.

The concern of the agency

appears to be protecting the public from over-the-counter product abuses. In the case of small investors, the protections exchanges offer - a clearing house, creditworthiness standards, audit trails and a fluid secondary market - are crucial. But these concerns would have less bearing on off-exchange dealings between institutions. Ms Joanne Medero, CFTC general counsel, says the agency views off-exchange

Amex can boast that it is now the number one market for equity derivatives

products as a "professional's game", and would be likely to create exemptions only for institutional markets.

This may not satisfy the futures exchanges. But leading institutions who deal in the exchange and OTC markets say both market places have a role. Mr Jack Lehman, of Shearson Lehman, says off-

change derivatives have advantages many customers may want. They can offer a tailored product with an immediate execution and a known price.

"I can't think of a single reason why the marketplace should not determine where products are traded," he said.

Moreover, dealers and issuers frequently turn to the futures and options exchanges to hedge the risk they assume in customised principal-to-principal contracts.

Thus, he said the exchanges can benefit from greater volume and customers who learn through off-exchange derivative contracts how the exchanges work, may enter those markets themselves.

While the futures exchanges fuss about the potentially vast business they may lose from the expansion of OTC products, the options exchanges have been moving to reel in some of the demand for new derivatives.

The American Stock Exchange has gone furthest in creating whole new classes of equity derivatives. Mr James Jones, who became Amex chairman in November 1988, spied a niche in the market and leapt to take advantage.

Mr Jones's venture, which began with Nikkei warrants in January 1990, had the benefit not only of foresight but of luck. It was just then that the Japanese stock market's volatility created keen interest in such products.

Starting with its first Nikkei warrants last year, Amex now trades 16 new derivatives. It has also added three new types of long-term options. All these have tapped what appears to be a new market.

Out of Amex's 1990 aggregate equity trading volume, the new equity derivatives - including warrants on foreign stock indexes and foreign currencies, contingent value rights and oil trusts units - accounted for 15.8 per cent.

Their trading volume reached \$30.5m. Foreign stock index warrants alone grew to

13.10 per cent of the exchange's aggregate volume.

Mr Jones now says that Amex, which could only claim to be the number three market for equities and the number two market for options, can boast that it is the number one market for equity derivatives.

The Chicago Board Options Exchange (CBOE) has also jumped into the market with the launch last year of several new classes of long-term options, called LEAPs or Long-term Equity Anticipation Securities. It began listing LEAPs on 14 blue chip equities last October, and followed with LEAPs on its Standard & Poors 100 and 500 indexes.

Open interest in equity LEAPs reached more than 31,000 contracts in less than three months and S&P index LEAPs have also quickly attracted customers. Trading volume in the S&P 100 index LEAPs went to more than 9,000 in just their first two-and-a-half weeks last December. This summer, the CBOE also plans to list options on three foreign indices, the FT-SE 100 index, the FT-SE Eurotrack 100 and the FT-SE Eurotrack 200.

Notably, both the Amex and the CBOE have discovered that, at least initially, retail customers were the first to pounce on the new derivatives.

When Mr Jones launched the first Nikkei warrants he believed it would be an institutional market and was surprised to learn the bulk of trading came from retail customers.

At the CBOE, Mr John Roberts, the exchange's marketing chief, observed the same phenomenon. He explained that retail customers can more easily change their investing behaviour and move more quickly in and out of the market, whereas institutions make slower shifts to new investment vehicles. By all estimates, the off-exchange market is expected to continue to grow.

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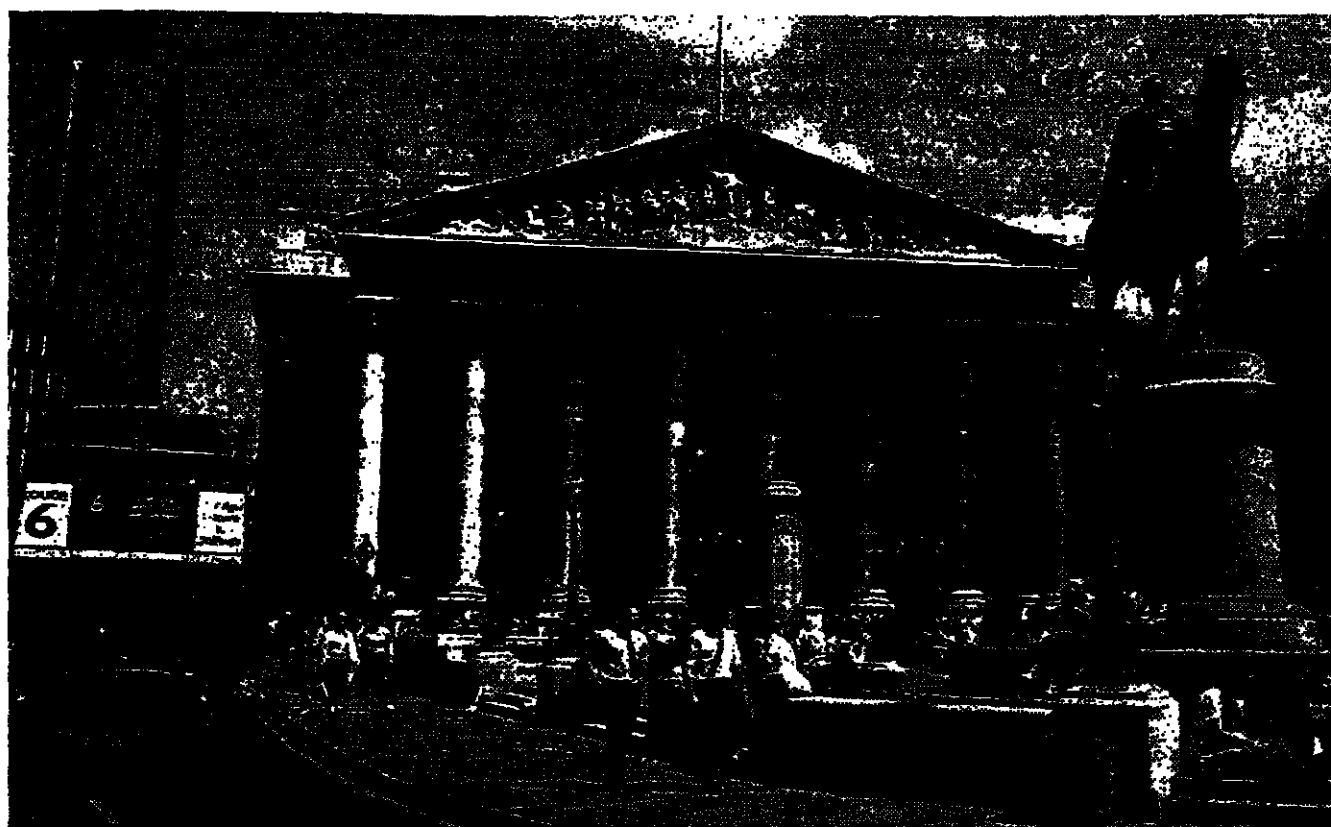
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Jim McCallum looks at proposed new regulations for unit trusts

Significant changes likely

If draft regulations unveiled in 1990 by the Securities and Investment Board become law, there are likely to be revolutionary changes this year in the types of authorised unit trusts available in the UK.

Department of Trade and

Industry regulations at present restrict unit trusts in the use of futures and options. Many derivative specialists believe the eventual impact of the expected SIB changes could give a substantial boost to their industry.

About £40bn of investment is locked up in unit trusts and if just a small fraction is hedged in the derivatives market, the impact may be as great as when pension funds were permitted greater access to those markets.

The status of unit trusts is complicated and has been widely criticised. At present, regulations set by the DTI in 1985 govern unit trusts' use of derivative products.

The 1985 regulations were introduced to present a regulatory framework for authorised unit trusts and is based on the European Community Directive of 1985, relating to "Undertakings for Collective Investment in Transferable Securities," known as UCITS.

The directive allows derivatives only to be used as part of "efficient portfolio management" and not for speculation.

The directive, which member states were generally required to implement by October 1989, allows unit trusts investing in securities within its framework to be freely promoted throughout the EC.

The regulations are not so straightforward for implementing the directive for unit trust investment within the UK. Under the regulations, authorised unit trusts are restricted to using derivative products for hedging. In practice, this is usually taken to mean that they can use futures and options only to protect the value of existing holdings.

The DTI interpretation of efficient portfolio management means unit trusts are only able to sell index stock futures, write or sell call options and buy puts against holdings of the underlying securities. This can be done provided their use is for the reduction or elimination of risk in the management of the trust by fluctuations in prices, interest or exchange rates.

The SIB proposes to clarify these anomalies. In December 1990 it brought out an important consultative document, CP49, which proposed sweeping changes in the way unit trusts use derivative products.

It is expected that legislation allowing these changes will be in force later this year.

For the securities industry, it will be the changes in regulations relating to efficient portfolio management which are likely to be the most significant, says Mr Alan Wren, chief executive of the Prudential Holborn. Under the proposed changes, unit trusts will be able to use derivative products for transactions aimed at

reducing cost as well as risk and to enhance portfolio returns.

Mr Wren explains how derivatives can be used by unit trusts. "For existing unit trusts it will smooth out inflows and outflows. Unit trusts can expand when the market goes up and vice versa. So unit trusts can be forced into the stock market and these conditions can make it particularly difficult to get the stock required."

He believes that if the proposed changes on efficient portfolio management are implemented it will be beneficial for the whole industry.

"A manager can painstakingly build up a portfolio but then find a sudden change is needed. Derivatives allow the manager to hold on to the core shares in the portfolio and use derivatives for shifting exposure."

The importance of the changes was underlined by a recent survey by KPMG Management Consulting. Of the 10 largest unit trusts, it found that at present four use derivatives, five do so only on a limited basis, while one does not.

But when asked about the proposed changes relating to efficient portfolio management, eight said they intended to increase their use of derivatives, one said possibly and the other no.

The other main area of change has been that of allowing the creation of authorised futures and options funds, which could be marketed to the general public. At present a number of unauthorised futures and options funds are available in the UK, but they are restricted in whom they can sell to.

The SIB has proposed four new categories of authorised unit trusts: lower-risk futures and options funds; higher-risk or "geared" funds; warrant funds; and property funds.

These proposals have stirred controversy in the unit trust industry, although many of the larger funds accept the need for change.

Mr Trevor Robinson, director of derivatives at Fidelity, said some funds believed unit trusts should not be the vehicle for futures funds. But the Fidelity thought they would be popular, using derivatives to promise to maintain the value of an investor's capital. "Such a fund would sell well," he said.

Unit trusts' interest in these specialist funds was underlined in the KPMG survey. Only two of the top 10 groups have ruled out the launch of a futures and options unit trust. Two trusts say they will definitely launch a futures and options fund, while eight out of 10 are considering the launch of a geared fund. Only two said they would definitely not launch a geared fund.

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FINANCIAL FUTURES AND OPTIONS 4

FT writers investigate the progress made by the derivatives industry in attracting investment from US and UK pension funds

Institutional interest quickens after tax changes

FOR many years UK futures and options brokers have looked jealously to the US, where a huge derivatives industry is supported by leading institutional investors. US fund managers are familiar not only with the uses of stock index futures in hedging portfolios but also options, with their greater technical sophistication.

Informing institutions about derivative products takes time and there is little brokers can do but try to educate fund managers. But understanding also comes with increased use and last year a former obstacle was cleared from the path of institutions seeking involvement in derivative products.

In the UK budget, the then chancellor of the exchequer, John Major, bowed to years of lobbying and proposed to exempt pension funds and

Informing institutions takes time and there is little brokers can do but try to educate fund managers

authorised unit trusts from tax gains arising from the use of futures and options. So far the main impact has been on pension funds. Further changes regarding unit trust's use of derivatives will come later this year.

The Finance Act in July cleared the way for traded options and futures to enjoy a more favourable tax treatment than that of their underlying

securities. Now, gains from futures and options are treated as capital rather than income.

Have the changes resulted in an increase in institutional interest? In the case of stock index futures the answer would seem to be a definite yes. The figures from the London International Financial Futures Exchange show that in 1990, turnover in the FT-SE 100 index futures contract rose by 40 per cent.

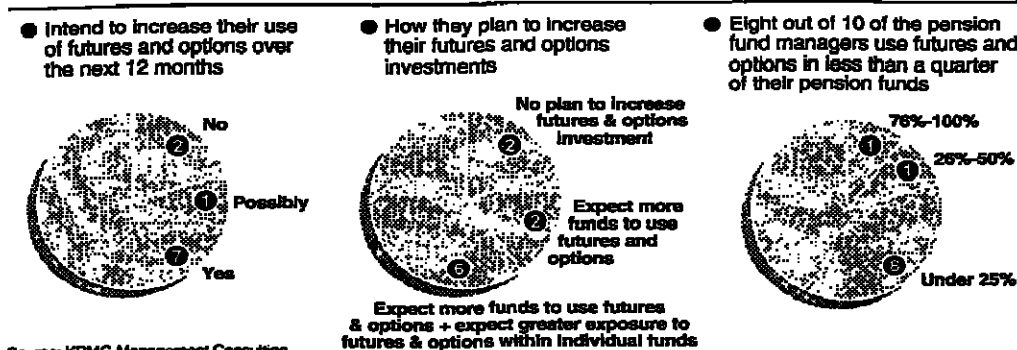
Mr Paul Hilton, head of derivatives research at James Capel, says there has been an increase in derivative products since the regulatory changes last year. "This has definitely reflected greater interest from the pension fund community as a result of the tax changes."

The build-up of pension fund activity in derivatives since last July has so far been steady. Most independent analysts believe only a minority of all pension fund managers use futures and options. Of the larger funds, most are now active in derivative products even these important players still expect to develop the use of these products.

A survey by KPMG Management Consulting of the leading pension funds confirms this impression. Nine out of the UK's 10 top pension funds use futures and options in their funds, with the other one using options only. But out of these 10, eight use futures and options for only 25 per cent or less of the total number of pension funds managed.

The likelihood of further use of derivative products is also confirmed by the survey. Seven out of 10 say they are

Ten largest pension fund management groups



likely to increase their use of futures and options over the next 12 months, while one says it will possibly increase its use of derivatives.

The reasons for the slow build-up of interest in futures and options are varied. Partly

it is education. Some fund managers are still learning about derivatives. Others do not have the systems in place to deal with derivatives. Many leading fund managers still privately complain about the lack of skilled personnel.

Another barrier is the resistance of some trustees. While it is the fund which is charged with the responsibility to manage the investment, it is the trustees who must answer to the people who invested with them to provide a pension.

It's a long-term sell for account advisers, writes Barbara Durr

Ever-conservative funds are playing hard to get

MANAGED futures account advisers are engaged in a fervent courtship of US pension funds. But the ever-conservative funds are playing hard to get.

"It's a long-term sell," said Mr Marc Goodman of Kenmar, a managed futures advisory firm in New York. "But if you're willing to do it, the payoff is enormous." Were US pension funds to channel just a tiny fraction of their \$1,900bn in assets into managed accounts, this segment of the futures industry might find itself awash in money. But futures firms say that, in spite of their best efforts at wooing pension funds, a payoff is at least a year or two away, and probably longer.

Pension funds are, however, giving clear signs that they are interested in knowing more about such investments even if they are not ready to take the

plunge. And this has spurred hopes among managed futures advisers.

Mr Grant Schaumburg, president of Mt Lucas Management in Princeton, N.J., which handles the Eastman-Kodak pension fund monies that were the

'Managed futures will be recognised as an asset class over the next 10 years'

first to experiment in managed futures, says that its annual symposium for institutional investors has seen "exponential interest". In the past two years, attendance shot up from just 20 bona fide institutional representatives to more than 80. And for this year's conference in May, Mr Schaumburg claims "interest is very strong". Eastman Kodak pio-

neered pension funds entry into managed futures in 1987 with a \$50m investment and has since increased the amount to some \$250m.

Kenmar is testimony to the diligence with which managed futures advisers must pursue their goal. It has been playing suitor to one pension fund for three years while developing contacts with others. Mr Goodman said he expects investments by pension funds to be "a trickle in the next year or two, but over the next five to 10 years there'll be an explosion."

"We're starting to go a little faster, but we're not anywhere near a bandwagon effect. It's probably where mutual funds were back in the 1950s."

Mr David Love, president of Monmouth Capital Management in San Diego, believes that his firm is close to reeling in at least one significant pension fund client and another four are "on the line". He says managed futures "will be recognised as an asset class over the next 10 years" but that for the safety-minded funds "to break ground and do something new it takes a lot of resolve". He foresees the greatest possibilities in public employee pension funds, which have a greater cash flow than most corporate pension funds. So far, pension funds have experimented very tentatively with managed futures. Most institutional money managers have yet to be persuaded that managed futures are a legitimate asset class rather than speculation.

Pension funds account for just over \$1bn of a total of some \$12bn in managed futures to date, according to Mr Leon Rose, publisher of Managed Accounts Reports, which

Pension funds have experimented very tentatively with managed futures

tracks such investments. Other than Kodak, Mobil Oil, the Detroit Police and Fireman and Massachusetts state employees are reported to have made the leap into managed futures.

The state of Virginia's public employee pension fund has also recently authorised a search for managed futures advisers. And some believe that Boeing's pension fund may make a move.

Managed futures accounts are carefully structured to include a selection of futures contracts and a number of trading strategies to yield the highest and most stable return. Most are tailored to clients' needs.

Their appeal has been growing for several reasons. Their performance has been superior compared to that of equities markets. While most measures of equities markets declined last year, many futures funds had banner years.

Managed futures have the benefit of a low correlation with other assets, such as shares and bonds. This means they are likely to perform well when other assets perform poorly. While the equity markets, for example, are driven by stability, the futures markets are driven by market disruptions and disequilibria.

This is a powerful argument for diversification of an institutional investor's portfolio, managed account advisers say. Many pension fund managers also find themselves in a search for alternative investments now that the attraction is gone from venture capital, junk bonds, oil and gas leases and real estate.

Yet for pension funds, which are carefully regulated, a number of obstacles remain to investing in the futures markets. Under their regulations, hedging and even a small

amount of speculation is allowed, but managed accounts as an investment category are new and must meet the criteria of "skill, prudence and diligence" required of pension fund investing.

The first hurdle is thus whether managed futures constitute a genuine asset class or are classified as speculation. As evidence accumulates, this doubt is expected to diminish.

Mr Carlton Anderson of Car-gill Investor Services' managed futures division says he believes that the Nobel economics prize last year - which Mr Merton Miller, considered one of academia's top experts on futures, shared with Mr Harry Markowitz and Mr William Sharpe for portfolio theory - will help legitimise futures investing.

The fee structure for managed futures accounts is an issue for some institutional investors. Managed futures account advisers typically charge a 2 per cent management fee and another 20 per cent incentive fee on net new profits. But the fee structure is comparable to that for venture capital.

Concerns about risk and predictability on returns and performance also give pause to institutional money managers. Commodity funds and accounts can fluctuate wildly, even if the overall trend is up, and any investor must not scare easily.

But bravely is likely to come with numbers. "Once some start to do it, others will feel more comfortable," said Mr Love.

one of the main obstacles to such investment that they faced.

But Mr David Hager, an investment partner at securities Bacon & Woodrow, said pension fund trustees have become more aware of derivatives since the budget changes

The bad publicity from the FBI investigation into the Chicago futures market is a worry to the industry

and want to become involved. Many will go along with the fund managers requests. Some trustees have denied permission because the fund manager did not present the case for derivatives well enough. As for others: "If the trustees think it's speculation, the fund manager tends not to push it."

The argument which fund managers often use is that they will have lower returns if they cannot use futures and options. But, according to Mr Hager, the additional returns to a fund from futures and options are less than 1 per cent.

The real benefit of derivatives is that they allow a pension fund manager to alter exposure to domestic and overseas equities markets cheaply and efficiently. This re-shuffling of exposure without altering the holding of underlying securities is known as asset allocation.

With stock markets sometimes too illiquid to execute



Jim McCallum

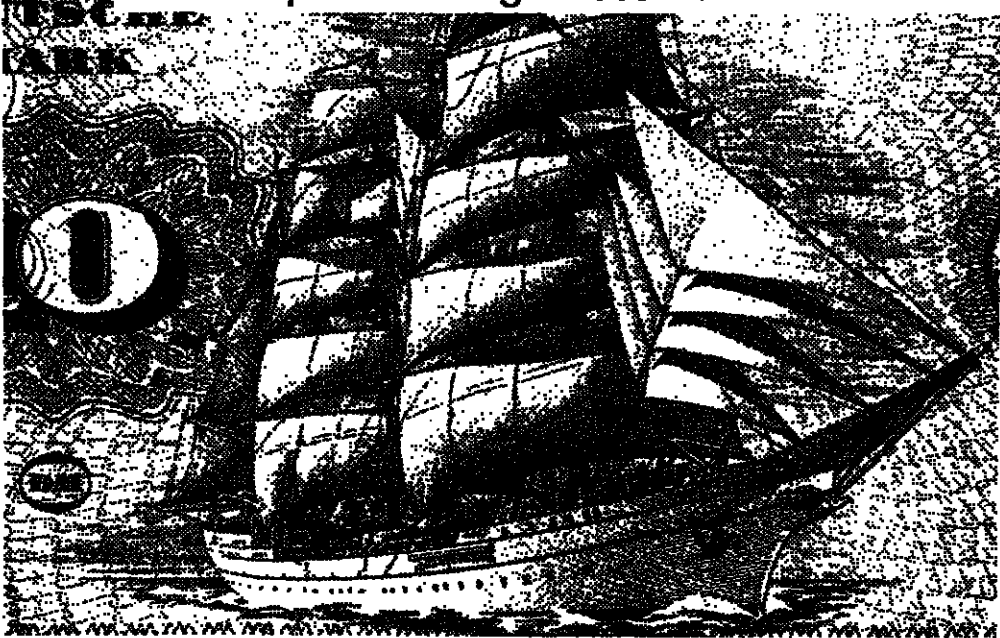
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FINANCIAL FUTURES AND OPTIONS 5

Barbara Durr on the world's two largest futures exchanges

World market share shrinks

THE world's two largest futures exchanges, the Chicago Board of Trade and the Chicago Mercantile Exchange, have adopted a new strategic perspective. No longer do they consider each other the main competitive threat for futures trading. They now jointly see their keenest challenge in competition from other exchanges around the world.

The Chicago behemoths of the futures business, once almost entirely dominated futures trading. But they have steadily seen their world market share erode as new exchanges have emerged around the globe.

In 1990, the combined world market share of the CBOT and CME held at 47.8 per cent, roughly what it has been over the past few years. But what worries Chicago exchange officials is that a number of top international exchanges are capturing much of the new business in futures and enjoying extraordinary growth.

The London International Financial Futures Exchange (Liffe) and Paris's Marché à terme international de France (Matif), the two largest non-US exchanges, for example, posted record trading volumes last year. According to figures from the Futures Industry Association, volume on Liffe swelled 43 per cent to 34m trades, while Matif notched a 10 per cent gain to 28.6m.

The CBOT last year posted an 11.5 per cent trading volume increase over 1989, with a total of 120.7m contracts changing hands. The CME's volume fell by 1.5 per cent, with 84.8m trades.

As the new age of international competition has dawned on Chicago, the two exchanges have put aside their traditional rivalry to explore how they can co-operate. The first and most crucial instance of this new camaraderie was the decision last year by the CBOT to join the CME in Globex, the after-hours electronic trading system due to be launched this summer.



Chicago Board of Trade: fighting foreign competition

Globex, perhaps more than any other effort the exchanges are making, aims to capture some of the futures business overseas which Chicago's hours do not now permit. Mr John Sandner, the chairman of the CME, has said he wants

The two exchanges have put aside their rivalry to explore how they can co-operate

Globex to become in the futures industry what Cable News Network (CNN) is to television, a worldwide omnipresent network.

Globex, developed by Reuters, is due to begin testing at the end of the first quarter and is expected to be ready for a

launch by summer. Terminals in Paris at Matif, the first non-Chicago exchange to sign on to the Globex system, are not due to be up until about six months later.

The CME and CBOT say they have begun talks with the New York Mercantile Exchange (Nymex), the US oil market, the London International Financial Futures Exchange and the Singapore International Monetary Exchange (Simex) to join as partner exchanges in Globex. They will also seek other partners in time.

As part of their efforts to reduce costs and to make transactions in Chicago less expensive, the two Chicago exchanges are co-operating on other technology. They are jointly developing a hand-held

electronic trading card, known as Audit, that will vastly improve the audit trails and so improve exchange and regulatory surveillance for trading abuses. They are also likely to consolidate their foreign representative offices in London and Tokyo.

Chicago's exchanges have also begun fighting foreign competition by launching a series of new products, especially ones with foreign appeal. Last year, for example, the CME began trading Nikkei index futures and the CBOT started futures on Japanese bonds and the Tokyo Stock Exchange index, Topix. And this year, the CBOT plans an entirely new complex of futures on insurance, while the CME plans to trade six currency cross-rate futures. The CME has applied for CFTC approval to trade futures for cross rates of the D-Mark/British pound, Yen/pound, Swiss franc/pound, Yen/D-Mark, Yen/Swiss franc and Swiss franc/D-Mark.

In addition, officials from the CBOT and CME are working together to thwart what they see as a regulatory threat to the US futures industry. The US already has the world's most vigorous regulation of futures trading, and the exchanges fear that any further tightening of rules - which will mean additional costs - could drive business overseas.

They are fighting a 13 cent transaction tax on the sale and purchase of futures proposed by President George Bush in his fiscal 1992 budget. CBOT chairman Mr William O'Connor fumed: "What kind of policy is it to levy a tax on America's financial exchanges when exchanges around the world are reducing or eliminating theirs?"

The tax would sap liquidity from the markets, the exchanges say, because small local independent traders would not be able to bear the increased costs.

Katharine Campbell reviews the new German exchange

Late starter tries to catch up

"THE recently introduced futures contracts demonstrate that it is difficult to compete with an established foreign exchange, even if the market - in this case the DTB - could catch up in the future."

Mr Karl Thomas, president of the central bank of the state of Hesse, is expressing a worry prevalent among those promoting the country's somewhat lagging financial services industry - that Germany made a possibly fatal late start in the derivatives business.

When the Deutsche Terminbörse (DTB), a fully automated exchange initially listing 14 options on blue chip stocks, opened at the end of January 1990, important D-Mark demom-

inated contracts were already established elsewhere. A future on the 10-year government bond was flourishing at Liffe in London, and Liffe and Matif, the French exchange, were competing for volume on a short-term D-Mark interest rate product.

Instead of starting with futures products in an immediate attempt to fetch back national domestic business, the DTB did not introduce futures until late November last year. Then the exchange began trading a future on the DAX index of 30 blue chip stocks, and a bund future almost identical in specifications to the Liffe instrument.

The DAX, not traded else-

where and hence not open to invidious comparisons in terms of rival volumes, is reckoned to be developing satisfactorily, with an average turnover of just over 3,000 contracts a day last month. It still remains a long way from being able to accommodate the huge orders enthusiastic Japanese brokerages apparently try to pass through the system.

Stock options have also been a success in their first year. Last month daily volume in all stock options averaged over 43,000 contracts - even if turnover is heavily concentrated in four or five stocks. In January and February the DTB surpassed volumes on other long-established if not terribly successful European exchanges, notably the London Traded Options Market (LTOM) and the European Options Exchange (EOE) in Amsterdam. The embarrassing failure to date has been the bund future, where daily volume in February was just over 4,000

The main problem for the DTB is it started with both hands tied behind its back

lots a day - less than a tenth of the 53,000 lots averaged in London.

In December, a note from the exchange to its big bank members urging them to support their home market, in which they have invested so heavily, prompted Deutsche Bank's Mr Rolf Breuer, who is also chairman of the DTB, to suggest that his bank would "give preference" to Frankfurt for its own account trading. Embarrassingly little then happened, although Mr Breuer said only when the March contract on Liffe ran off, as it did at the beginning of this month, would Deutsche unwind significant open interest positions in London for transference home.

The principal problem for the DTB is that it has effectively started with both hands tied behind its back. Not only did Liffe have a product it had been successfully retailing for more than two years - and the history of other exchanges pricing away business in those circumstances is not encouraging - but the competition was also one of systems. Asked the secret of Liffe's success over the DTB, Mr Michael Jenkins, chief executive, says simply: "We have a superior trading system, and that does not just mean open outcry." Mr Jenkins is referring to London's development of APT, an electronic after-hours facility that tries to replicate as far as possible on screen the culture and quirks of the physical pit on which Liffe still relies for the bulk of the trading day. Futures trad-

ers on the whole give APT high marks, but then it was conceived in a quite different way from the DTB.

By contrast, the German software grew out of an options system. Adapting it to the demands of futures trading - a quite different discipline from options - has proved perhaps trickier than first envisaged.

The crucial feature of a successful futures facility is that it permits very heavy trading in extremely short periods - easier to achieve on a trading floor, but not impossible to achieve on screen. With options, the mathematical complexities and the number of different combinations of trades are more suited to a computer setting.

The DTB gets high marks for complexity and sophistication - too high, according to some. "It's like Tolkien - fascinating but do you need it?" was one trader's opinion.

But the DTB's main problem is slow response times during relatively busy periods. Indeed, the exchange has already established that it requires new hardware - made particularly clear when capacity problems surfaced after a record day of more than 94,000 contracts following the outbreak of the Gulf war. More powerful hardware will undoubtedly help, but the sceptics still suspect that even then the DTB will remain inferior as an options rather than futures trading place.

However, when the new hardware is in - probably by the middle of the year - Mr Jörg Franke, DTB chief executive, wants to persuade his supervisory board of leading German banks to allow terminals to be located outside Germany. To date, the big banks have discouraged the idea for fear of losing broking business - another example of how the banks have tended to impede the development of the exchange.

Its international rivals at heart believe that the DTB will be made to work not least because it has represented such a huge investment more than DM10m for the exchange alone, without the banks' own in-house preparations. At present the German banks are only just gearing up to derivatives - and it appears that they may not have been using the bund on Liffe as actively as was thought. The banks have done little marketing of futures to end users - such as corporates or fund managers - and the DTB itself takes a much more relaxed attitude to marketing than Liffe which has learned the importance of preparing the ground for a contract well before its launch. All that will have to change if Germany is to repair its late start.



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*Source: Futures & Options World Magazine, February 1991 Issue



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COMMODITIES AND AGRICULTURE

US metals markets cash in their peace dividends

Post-war euphoria has lifted prices but the outlook remains uncertain, writes Barbara Durr

IN THE US commodities markets post-war euphoria has carried metals prices higher. But opinion remains somewhat divided in large US trading houses about what the future holds.

Some analysts believe that on the wave of optimism that has infected the markets will fade as the US economy falls to the ground in the way that the current conventional wisdom suggests that it will. Others, observing the lowering of an US interest rate and decreasing fears of inflation, believe the current rally is the beginning of the end of the US recession.

The most commonly voiced scenario for the US economy is that it will receive a boost from increased consumer confidence now that the war is over and that it will begin picking up its pace in the second half of the year. This would, for example, mean increases in sales by car manufacturers, big users of copper, aluminium, zinc, lead (for batteries) and platinum (for exhaust-cleaning catalysts).

Platinum would also be expected to benefit from an upturn in sales of electronic goods, while a rise in jewellery purchases would be helpful for gold and silver.

But says Mr John O'Connell,

"All the structural problems that were there before the war are still in place"

chief of research for Refco, the large futures commission merchant, "I see little real evidence that the end of the war will stimulate demand and all the structural problems that were there before the war are still in place."

Mr O'Connell and other sceptics argue that the current drift upward in prices is partly an overdue technical correction from the depressed situation in which metals had been for some time.

Mr William O'Neill, senior futures strategist at Merrill Lynch, calls the current lift in prices "an end-of-the-war

micro-rally" and suggests that once the euphoria wears off prices will resume the earlier downward trend, though without falling heavily. "There are no dramatic new fundamentals," he said.

The other school of thought

part technical, following a long period of very oversold positions. While it is not unusual for metals prices to rally on the first signs of recovery and correct soon after, there may be additional muddle in the American markets. A US recovery, particularly if it is less than robust, may not deliver as much good news as some traders think.

Mr David Hale, the chief economist at Kemper Financial Services in Chicago, points out that the US accounts for a much smaller proportion of world metals consumption than Europe and that metals traders may be inadequately discounting the magnitude of the economic slowdown now occurring on that side of the Atlantic.

He notes that the US share of world metal consumption is much smaller now than it was 20 or 30 years ago and that, as a result, metal prices will track the world economy, not just the US GNP.

In any case, analysts have

been close to consensus on two issues. Silver is believed to have stretched a little ahead of itself last week and this week's fall has come as no surprise. World overproduction remains a problem, while there is little evidence of new real demand, analysts say.

But they believe gold market may have been fundamentally changed by the Gulf war. Gold initially shot up after the invasion of Kuwait to about \$420 and then dropped and stayed below the \$400 mark, well below what expectations of its role as a safe haven historically would have led many to expect.

Mr Cardillo notes that the market had been depressed for the duration of the war by a steady stream of gold sales by Saudi Arabia and Kuwait, which sold the metal for money to support the war. The end of the war has thus brought a sigh of relief for gold traders, who no longer believe pressure may be off from Middle Eastern gold selling.

But another factor that kept

gold down was that the markets were also looking closely at the recession. "That turned out to be a more powerful force than the war," says Mr Macdonald.

Fresh downward pressure for gold now is coming from the perception of some analysts that the US dollar may have already bottomed out and will rise in value by some 10 per cent over the next 12 months. According to Mr Warren Myers, a gold market analyst at Merrill Lynch, that should not mean that gold will decline by a corresponding 10 per cent. He reckons that \$350 is a floor, because at that price demand by the jewellery trade picks up. Yet most in the trade seem to believe that a price over \$400 is unsustainable.

More damning still for gold is the belief that the Gulf war has ended an era for the yellow metal. Unlike the past, there was no flight to quality, out of currencies for example to gold. "The war put the nail in the coffin of gold as a safe haven," says Refco's Mr O'Connell.

Silver market goes into reverse

By Kenneth Gooding, Mining Correspondent

SILVER'S RECENT rapid rise in price from the lowest level for 17 years went into reverse yesterday. At the morning price fixing session in London, silver dropped to 397.90 US cents a troy ounce, down about 16 cents from Monday's close.

During the rest of the day the price behaved in roller-coaster fashion before closing in London at 404.50 cents an ounce, down 10 cents.

"Post-Gulf war euphoria has now evaporated," said Ms Rhona O'Connell, analyst at Shearson Lehman, part of the American Express banking group. She thought this was mainly responsible for silver's price rise, but that a strike at the Met-Mex Penoles smelting complex in central Mexico was expected to end this week also helped the process.

Penoles accounts for about 10 per cent of the western world's annual silver output and has been strike-bound for 26 days. But Ms O'Connell

pointed out this was fundamentally irrelevant because there was about 20 years supply of silver in stock above ground and the industry continued to generate an annual supply surplus. "Fundamentally, silver does not deserve to be above \$4 an ounce but that is an important psychological price and the price might hold there for a while," she added.

Silver touched 350 cents an ounce briefly two weeks ago. Dozens of primary silver mines were driven out of production as it made its way down. When the Gulf war ended the price rebounded by nearly 20 per cent in less than two weeks.

Platinum which, like silver, is being seen increasingly as an industrial rather than a precious metal, also benefited from the post-war euphoria. But profit-taking by Japanese investors yesterday reversed the advance. Platinum closed at \$410.75 an ounce down in London last night at \$404.75.

Tax change takes the shine off Australian gold

Production is expected to fall and prospectors are losing interest in the country writes Kevin Brown

AFTER A decade of rapid growth, the Australian gold industry is losing its lustre, but not its sense of humour.

"We know things are difficult because gold is not a travel first class or get a box at a sporting event any more," says Mr Robert Champion de Crespigny, chairman of Adelaide-based Normandy Posidon.

Australia's mines produced a record 222 tonnes of gold last year, making it the world's third biggest producer after South Africa and the US. But there seems little doubt that output has peaked.

The Australian Bureau of Agricultural and Resource Economics says production will rise only slightly this year, before declining steadily to 175 tonnes by 1995.

Some of the miners are even more pessimistic, however. "We expect production to fall to around 200 tonnes this year, and to a maximum of 150 tonnes by 1995, unless there are some significant new discoveries. The minimum could be as low as 90 tonnes," says Mr Peter Walker, managing director of Dominion Mining.

The industry grew rapidly during the 1980s because of a combination of relatively high prices, easily available equity capital and technological improvements in exploration, metallurgy and production methods. But it suffered a double blow in 1987, when the stock market crash helped to dry up capital supplies and the

gold price started the fall that has taken it from nearly US\$400 a troy ounce to under \$370 now.

Most analysts say the price is likely to remain relatively low because gold is no longer viewed primarily as a safe haven for wealth. Abare, for example, is forecasting an average price of US\$395 an ounce for this year, falling steadily in real terms to \$377 in 1996.

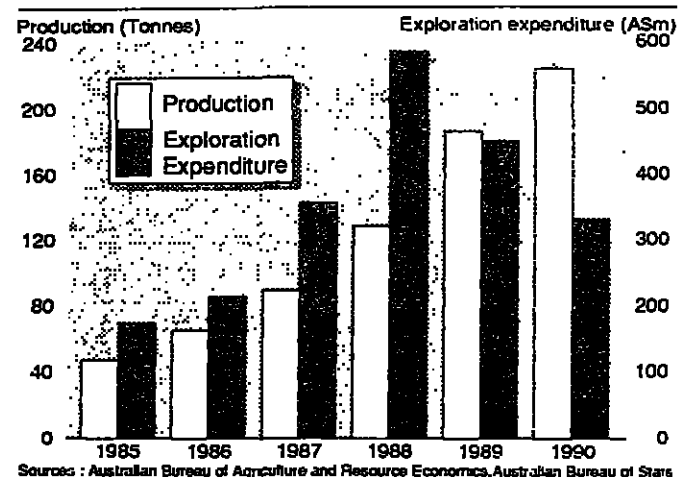
Lower prices have helped to make many mining ventures uneconomic, partly because Australia's largely small-scale mines have average costs about 40 per cent above US levels.

However, the inevitable impact on production has been delayed because gold miners were told in early 1988 that the industry would be losing its exemption from corporate taxes in January of this year. The warning prompted mining companies to produce as much metal as possible by bringing forward processing of high grade ores, and this contributed to a 145 per cent increase in production between 1987 and 1990.

The extension of taxation was part of the Labor government's attempts to create an economic "level playing field" for business by removing distortions that favoured particular sectors.

Mining companies argue, however, that it has damaged the industry by worsening the shortage of risk capital and reducing the incentive to

Australian Gold



explore for new reserves. As evidence, they point to a fall in exploration expenditure from a peak of \$558m in 1988 to \$353.7m last year. There has also been a sharp fall in the number of new mines being opened, especially in Western Australia, home to more than two-thirds of the industry, where starts dropped from 60 in 1987 to 14 in 1990.

Support for this view is provided by Ernst & Whinney, the accounting firm, which concluded in a report for the recent Australian Gold Conference in Sydney that the tax was seriously distorting the industry's operations. "Australia via now has very few projects in the exploration phase," it said. "Australia's attractiveness for exploration is being diminished by ever greater restrictions on where companies can explore, and ever more complicated and lengthy mine permit procedures," says Mr John Quinn, managing director of Newmont Mining, the country's biggest gold producer.

Two main responses to the industry's problems are emerging.

● Mergers are creating larger units better able to raise capital and plan for the longer term. Newmont, formed through a merger between Australia and BHP Gold, is a classic example of this process, as is the recent merger of Mr de Crespigny's loosely linked Posidon and Normandy Resources units to form Normandy Posidon.

● Australian companies are increasingly attracted to overseas exploration, especially in nearby countries such as Indonesia and Papua New Guinea where their expertise is easily transferable.

PNG has undeveloped gold deposits on Lihir Island, and at Hidden Valley and Mount Kari as well as the better known Porgera deposit. In Indonesia, CRA is moving towards developing the Kelian deposit in Kalimantan, and Bililiton is operating two small gold mines on Wetar Island and at Lebong Tandai in Sumatra.

The Ernst & Whinney report indicates that "significant" sums have been switched to South East Asia by Australian companies since the gold tax was announced and concludes that "such funds would have

been invested in Australia had the rules not changed."

Mr Quinn goes further, suggesting that Australian risk capital will be diverted as far afield as British Columbia and South America unless the investment climate in Australia improves. "Newmont Australia... has relevant expertise in these geological environments. If governments (federal and state) in Australia continue to promote policies which actively discourage the mining industry they should do so in the full knowledge that that industry is very mobile and international in its perspective."

"The end result of the continuation of these policies will be a redirection of risk capital into those countries which offer no less an exploration opportunity, but a more hospitable investment climate," he says.

Realistically, miners accept that the removal of the gold tax would challenge the government's entire economic strategy. But they say the industry's short-term future is bleak unless the gold price rises dramatically or the government gives some assistance, preferably by allowing exploration expenses to be written off against tax.

Neither appears likely, especially since gold was not even mentioned in the government's wide-ranging statement on industry policy earlier this week. "There is very little sympathy in Canberra," says Mr Walker.

EC pledges aid for fish farmers and processors

By Andrew Hill in Brussels

THE EUROPEAN Commission has pledged Ecu156.3m (£110m) to help develop the marketing and processing of fish products and fish-farming in the European Community.

The support announced yesterday will be spread over three years between 1991 and 1993 and should form part of an Ecu623m investment programme for the processing and fish-farming sector, the bulk of which will come from the private sector.

The EC investments are Community Support Frameworks - jargon for the instruments used to carry out reform of the structural funds, which

are made available to poorer regions of the EC.

All member states except Luxembourg will receive a part of this financial package, with Spain (Ecu33.6m), Italy (Ecu20.3m) and the UK (Ecu19.5m) as the principal beneficiaries. Aid for what used to be East Germany will be the subject of a separate commission decision.

A "commission" official stressed yesterday that the support frameworks would be aimed at improving the quality of the product - for example by developing port facilities or processing plants - without increasing capacity.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets).

ANTIMONY: European free market, 99.6 per cent, \$ per lb, in warehouse, 1,720-1,770 (1,715-1,770).

BISMUTH: European free market, min. 99.99 per cent, \$ per lb, in warehouse, 2,800-2,900 (same).

CADMIUM: European free market, min. 99.5 per cent, \$ per lb, in warehouse, 1,950-2,000 (2,000-2,300).

COBALT: European free market, 99.5 per cent, \$ per lb, in warehouse, 13,700-14,150 (13,500-14,100).

MERCURY: European free market, min. 99.99 per cent, \$ per 70 lb flask, in warehouse, 135-150 (135-150).

MOLYBDENUM: European free market, drummed molybdenum, 99.95 per cent, \$ per lb, in warehouse, 2,500-2,550 (2,500-2,550).

SELENIUM: European free market, min. 99.5 per cent, \$ per lb, in warehouse, 4,800-5,400.

TUNGSTEN ORE: European free market, standard min. 65 per cent, \$ per tonne unit (10 kg) WO₃, cif, 45-51 (same).

VANADIUM: European free market, min. 99.5 per cent, \$ per lb, in warehouse, 2,450-2,550 (2,450-2,550).

URANIUM: Nucleco exchange value, \$ per lb, U₃O₈, 9.50 (\$9.70).

MARKET REPORT

Coffee prices were in retreat yesterday. London's robusta market fell in quiet trade, affected mainly by the strong dollar. Dealers said the outlook remained dull with interest only seen picking up in the long term. New York arabicas were lower at midday, with the most active May contract falling below 92 cents a lb. "The problem with the market is that we've run out of news. There have been no new cash market developments, and now we've worked lower because the temporary chart support was broken at 92," one analyst said. Cocoa prices eased in London. There was little reaction to a

report that trade house Gill & Duffus had made an in-house revision of its estimate of the 1990-91 world cocoa surplus to around 80,000 tonnes from an excess of 140,000 tonnes forecast on February 1. On the LME copper rallied in the afternoon, edging back towards key chart levels. Dealers said prices moved off their lows on short covering, aided by a narrowing in the discount for cash metal and reports of Far Eastern physical interest. An attempted rally in the zinc market failed, but traders still expect nearby tightness to discourage a sell-off.

Compiled from Reuters

London Markets

SPOT MARKETS	
Cash oil (per barrel FOB)	+ or -
Dubai	\$13.90-4.02 +0.75
Brent Blend (diesel)	\$13.35-4.50 +0.75
Brent Blend (April)	\$13.60-4.45 +0.75
W.T.I. (11 pm est)	\$13.80-4.35 +0.75
Oil products	
(NWE prompt delivery per tonne CIF)	+ or -
Premium Gasoline	\$24.24-24.8
Gas Oil (1500)	\$17.5-18.1
Heavy Fuel Oil	\$6.7-7.1
Naphtha	\$20.4-20.7
Petroleum Argus Estimates	+ or -
Gold (per troy oz)	\$384.70 -1.35
Silver (per troy oz)	\$40.50 -1.00
Platinum (per troy oz)	\$404.75 -10.75
Palladium (per troy oz)	\$85.75 -2.50
Aluminium (first market)	\$1910 -10
Copper (US Producer)	\$116.50 +0.75
Lead (US Producer)	\$22 -
Nickel (first market)	\$95 -
Tin (Kuala Lumpur market)	\$14.50 -0.01
Tin (New York)	\$290 -
Zinc (US Prime Western)	\$62 -
Sheep (live weight)	107.25p -0.07
Pigs (live weight)	158.75p +0.07
Pigs (live weight)	\$5.65p +2.34
London daily sugar (raw)	\$230.00 -1.8
London daily sugar (white)	\$230.00 -6.0
Tate and Lyle export price	\$231.0 -1.0
Barley (English head)	Unq.
Maize (US No. 3 yellow)	Unq.
Wheat (US Dark Northern)	\$2.6
Rubber (April)	40.25p
Rubber (May)	40.75p
Rubber (KL RSS No 1 April)	\$22.5m +0.5
Cocoa (Philippines)	\$370.0 -5
Palm Oil (Malaysian)	\$257.5 -2.5
Copra (Philippines)	\$240 -
Soyabean (US)	\$14.85 -3.5
Cotton "A" index	\$3.90c -0.15
Wool (US Super)	\$300

SUGAR - London FOX				(\$ per tonne)
Raw	Close	Previous	High/Low	
May	202.40	203.60	203.80 201.00	
Jun	201.40	202.00	201.50 200.00	
Oct	197.80	196.60	196.20 194.00	
Dec	202.00	202.00	198.00	
May	194.20	188.60	187.00 185.00	
White	Close	Previous	High/Low	
May	286.0	286.0	286.0 286.2	
Aug	286.5	297.0	293.0 296.0	
Oct	273.5	273.5	270.0 271.7	
Nov	285.5	287.0	286.8 285.5	
Turnover: Raw 561 (1390) lots of 50 tonnes.				
White 529 (1194)				
Paras: White (FFR per tonne) May 1993, Aug 1994, Oct 1471.				
CRUDE OIL - EPE				\$/barrel
	Latest	Previous	High/Low	
Apr	18.15	18.37	18.56 18.05	
May	17.25	17.48	17.70 17.15	
Jun	16.75	16.82	17.20 16.88	
Jul	16.87	16.81	17.05 16.85	
IPE Index	18.39	18.67		
Turnover: 9587 (25372)				
GAS OIL - EPE				\$/tonne
	Latest	Previous	High/Low	
Mar	170.00	174.00	175.00 164.00	
Apr	164.00	165.00	165.00 157.00	
May	154.00	158.00	157.25 153.00	
Jun	155.00	154.75	156.50 154.00	
Jul	155.25	155.00	157.00 154.50	
Aug	155.00	155.75	156.50 155.00	
Sep	160.00	160.75	159.50 157.00	
Oct	163.00	163.00	163.00 160.50	
Nov	165.00	165.00	164.00 162.00	
Turnover: 1185 (22592) lots of 100 tonnes				
COTTON				
Liverpool: Spot and shipment sales in Liverpool for the week ending 8 March				

RICE - London FOX					C/tonne
Mar	112	111	112	111	112
Apr	112	111	112	111	112
May	112	111	112	111	112
Jun	112	111	112	111	112
Jul	112	111	112	111	112
Aug	112	111	112	111	112
Sep	112	111	112	111	112
Oct	112	111	112	111	112
Nov	112	111	112	111	112
Dec	112	111	112	111	112
Turnover	157	127	140	40	tonnes
SOYABEAN - London FOX					C/tonne
Mar	117	110	117	110	117
Apr	117	110	117	110	117
May	117	110	117	110	117
Jun	117	110	117	110	117
Jul	117	110	117	110	117
Aug	117	110	117	110	117
Sep	117	110	117	110	117
Oct	117	110	117	110	117
Nov	117	110	117	110	117
Dec	117	110	117	110	117
Turnover	70	150	100	20	tonnes
FREIGHT - London FOX					\$/Index per
Mar	1735	1715	1740	1735	
Apr	1575	1550	1584	1550	
May	1575	1550	1584	1550	
Jun	1177	1167	1185	1170	
Jul	1177	1167	1185	1170	
Aug	1177	1167	1185	1170	
Sep	1177	1167	1185	1170	
Oct	1274	1254	1275	1258	
Nov	1296	1281	1295	1285	
Dec	1296	1281	1295	1285	
Turnover	205	190			
GRAIN - London FOX					C/tonne
Mar	129	128	129	128	129
Apr	129	128	129	128	129
May	129	128	129	128	129
Jun	129	128	129	128	129
Jul	129	128	129	128	129
Aug	129	128	129	128	129
Sep	129	128	129	128	129
Oct	129	128	129	128	129
Nov	129	128	129	128	129
Dec	129	128	129	128	129
Turnover	205	190			
WHEAT - London FOX					C/tonne
Mar	118.50	118.15	118.50	118.40	
Apr	121.50	121.40	121.75	121.50	
May	121.50	121.40	121.75	121.50	
Jun	121.50	121.40	121.75	121.50	
Jul	121.50	121.40	121.75	121.50	
Aug	121.50	121.40	121.75	121.50	
Sep	121.50	121.40	121.75	121.50	
Oct	121.50	121.40	121.75	121.50	
Nov	121.50	121.40	121.75	121.50	
Dec	121.50	121.40	121.75	121.50	
Turnover: Wheat	282	(257)	Barley	41	(8)
Turnover: 165	(100)	tonnes			
PORK - London FOX					(\$ Cash Settlement) p/l
Mar	113.5	113.5	113.5	113.5	
Apr	113.5	113.5	113.5	113.5	
May	113.5	113.5	113.5	113.5	
Jun	113.5	113.5	113.5	113.5	
Jul	113.5	113.5	113.5	113.5	
Aug	113.5	113.5	113.5	113.5	
Sep	113.5	113.5	113.5	113.5	
Oct	113.5	113.5	113.5	113.5	
Nov	113.5	113.5	113.5	113.5	
Dec	113.5	113.5	113.5	113.5	
Turnover: 100	(28)	lots of 3.250 kg			
WHEAT - London FOX					C/tonne
Mar	154.41	152.28	154.41	152.28	
Apr	154.41	152.28	154.41	152.28	
May	154.41	152.28	154.41	152.28	
Jun	154.41	152.28	154.41	152.28	
Jul	154.41	152.28	154.41	152.28	
Aug	154.41	152.28	154.41	152.28	
Sep	154.41	152.28	154.41	152.28	
Oct	154.41	152.28	154.41	152.28	
Nov	154.41	152.28	154.41	152.28	
Dec	154.41	152.28	154.41	152.28	
Turnover	154	152	154	152	

WORLD COMMODITIES PRICES

LONDON METAL EXCHANGE	
Close Previous High/Low	AM Official
Aluminium, 99.7% purity (5 per tonne)	1505-6
Cash	1505-6
3 months	1551/1538
Copper, Grade A (5 per tonne)	1551-2
Cash	1551-2
3 months	1551-2
Lead (5 per tonne)	1551-2
Cash	1551-2
3 months	1551-2
Nickel (5 per tonne)	1551-2
Cash	1551-2
3 months	1551-2
Silver (5 per tonne)	1551-2
Cash	1551-2
3 months	1551-2
Steel (5 per tonne)	1551-2
Cash	1551-2
3 months	1551-2
Wheat (5 per tonne)	1551-2
Cash	1551-2
3 months	1551-2

New York

GOLD 100 troy oz. \$/troy oz.	
Close Previous High/Low	
Mar	364.8 364.7 364.0 364.0
Apr	365.1 365.2 364.9 364.5
Jun	367.7 367.6 367.0 366.5
Aug	372.3 372.3 372.0 371.7
Oct	372.3 372.3 372.0 371.7
Dec	372.3 372.3 372.0 371.7
Feb	372.3 372.3 372.0 371.7
Apr	372.3 372.3 372.0 371.7
Jun	372.3 372.3 372.0 371.7
Aug	372.3 372.3 372.0 371.7
Oct	372.3 372.3 372.0 371.7
Dec	372.3 372.3 372.0 371.7
Feb	372.3 372.3 372.0 371.7
Apr	372.3 372.3 372.0 371.7
Jun	372.3 372.3 372.0 371.7
Aug	372.3 372.3 372.0 371.7
Oct	372.3 372.3 372.0 371.7
Dec	372.3 372.3 372.0 371.7
Feb	372.3 372.3 372.0 371.7
Apr	372.3 372.3 372.0 371.7
Jun	372.3 372.3 372.0 371.7
Aug	372.3 372.3 372.0 371.7
Oct	372.3 372.3 372.0 371.7
Dec	372.3 372.3 372.0 371.7
Feb	372.

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MOTORS, AIRCRAFT TRADES

1990/91	Stock	Price	Div	Yield	P/E
1301	BAE Systems Plc	10.5	0.2	1.9	10.5
1302	BAE Systems Plc	10.5	0.2	1.9	10.5
1303	BAE Systems Plc	10.5	0.2	1.9	10.5
1304	BAE Systems Plc	10.5	0.2	1.9	10.5
1305	BAE Systems Plc	10.5	0.2	1.9	10.5

Commercial Vehicles

1990/91	Stock	Price	Div	Yield	P/E
1306	BAE Systems Plc	10.5	0.2	1.9	10.5
1307	BAE Systems Plc	10.5	0.2	1.9	10.5
1308	BAE Systems Plc	10.5	0.2	1.9	10.5
1309	BAE Systems Plc	10.5	0.2	1.9	10.5
1310	BAE Systems Plc	10.5	0.2	1.9	10.5

Components

1990/91	Stock	Price	Div	Yield	P/E
1311	BAE Systems Plc	10.5	0.2	1.9	10.5
1312	BAE Systems Plc	10.5	0.2	1.9	10.5
1313	BAE Systems Plc	10.5	0.2	1.9	10.5
1314	BAE Systems Plc	10.5	0.2	1.9	10.5
1315	BAE Systems Plc	10.5	0.2	1.9	10.5

Garages and Distributors

1990/91	Stock	Price	Div	Yield	P/E
1316	BAE Systems Plc	10.5	0.2	1.9	10.5
1317	BAE Systems Plc	10.5	0.2	1.9	10.5
1318	BAE Systems Plc	10.5	0.2	1.9	10.5
1319	BAE Systems Plc	10.5	0.2	1.9	10.5
1320	BAE Systems Plc	10.5	0.2	1.9	10.5

Newspapers, Publishers

1990/91	Stock	Price	Div	Yield	P/E
1321	BAE Systems Plc	10.5	0.2	1.9	10.5
1322	BAE Systems Plc	10.5	0.2	1.9	10.5
1323	BAE Systems Plc	10.5	0.2	1.9	10.5
1324	BAE Systems Plc	10.5	0.2	1.9	10.5
1325	BAE Systems Plc	10.5	0.2	1.9	10.5

Paper, Printing, Advertising

1990/91	Stock	Price	Div	Yield	P/E
1326	BAE Systems Plc	10.5	0.2	1.9	10.5
1327	BAE Systems Plc	10.5	0.2	1.9	10.5
1328	BAE Systems Plc	10.5	0.2	1.9	10.5
1329	BAE Systems Plc	10.5	0.2	1.9	10.5
1330	BAE Systems Plc	10.5	0.2	1.9	10.5

Shoes and Leather

1990/91	Stock	Price	Div	Yield	P/E
1331	BAE Systems Plc	10.5	0.2	1.9	10.5
1332	BAE Systems Plc	10.5	0.2	1.9	10.5
1333	BAE Systems Plc	10.5	0.2	1.9	10.5
1334	BAE Systems Plc	10.5	0.2	1.9	10.5
1335	BAE Systems Plc	10.5	0.2	1.9	10.5

South Africans

1990/91	Stock	Price	Div	Yield	P/E
1336	BAE Systems Plc	10.5	0.2	1.9	10.5
1337	BAE Systems Plc	10.5	0.2	1.9	10.5
1338	BAE Systems Plc	10.5	0.2	1.9	10.5
1339	BAE Systems Plc	10.5	0.2	1.9	10.5
1340	BAE Systems Plc	10.5	0.2	1.9	10.5

Textiles

1990/91	Stock	Price	Div	Yield	P/E
1341	BAE Systems Plc	10.5	0.2	1.9	10.5
1342	BAE Systems Plc	10.5	0.2	1.9	10.5
1343	BAE Systems Plc	10.5	0.2	1.9	10.5
1344	BAE Systems Plc	10.5	0.2	1.9	10.5
1345	BAE Systems Plc	10.5	0.2	1.9	10.5

Tobaccos

1990/91	Stock	Price	Div	Yield	P/E
1346	BAE Systems Plc	10.5	0.2	1.9	10.5
1347	BAE Systems Plc	10.5	0.2	1.9	10.5
1348	BAE Systems Plc	10.5	0.2	1.9	10.5
1349	BAE Systems Plc	10.5	0.2	1.9	10.5
1350	BAE Systems Plc	10.5	0.2	1.9	10.5

Transport

1990/91	Stock	Price	Div	Yield	P/E
1351	BAE Systems Plc	10.5	0.2	1.9	10.5
1352	BAE Systems Plc	10.5	0.2	1.9	10.5
1353	BAE Systems Plc	10.5	0.2	1.9	10.5
1354	BAE Systems Plc	10.5	0.2	1.9	10.5
1355	BAE Systems Plc	10.5	0.2	1.9	10.5

Property

1990/91	Stock	Price	Div	Yield	P/E
1356	BAE Systems Plc	10.5	0.2	1.9	10.5
1357	BAE Systems Plc	10.5	0.2	1.9	10.5
1358	BAE Systems Plc	10.5	0.2	1.9	10.5
1359	BAE Systems Plc	10.5	0.2	1.9	10.5
1360	BAE Systems Plc	10.5	0.2	1.9	10.5

Investment Trust

1990/91	Stock	Price	Div	Yield	P/E
1361	BAE Systems Plc	10.5	0.2	1.9	10.5
1362	BAE Systems Plc	10.5	0.2	1.9	10.5
1363	BAE Systems Plc	10.5	0.2	1.9	10.5
1364	BAE Systems Plc	10.5	0.2	1.9	10.5
1365	BAE Systems Plc	10.5	0.2	1.9	10.5

Water

1990/91	Stock	Price	Div	Yield	P/E
1366	BAE Systems Plc	10.5	0.2	1.9	10.5
1367	BAE Systems Plc	10.5	0.2	1.9	10.5
1368	BAE Systems Plc	10.5	0.2	1.9	10.5
1369	BAE Systems Plc	10.5	0.2	1.9	10.5
1370	BAE Systems Plc	10.5	0.2	1.9	10.5

Finance, Land, Etc

1990/91	Stock	Price	Div	Yield	P/E
1371	BAE Systems Plc	10.5	0.2	1.9	10.5
1372	BAE Systems Plc	10.5	0.2	1.9	10.5
1373	BAE Systems Plc	10.5	0.2	1.9	10.5
1374	BAE Systems Plc	10.5	0.2	1.9	10.5
1375	BAE Systems Plc	10.5	0.2	1.9	10.5

Oil and Gas

1990/91	Stock	Price	Div	Yield	P/E
1376	BAE Systems Plc	10.5	0.2	1.9	10.5
1377	BAE Systems Plc	10.5	0.2	1.9	10.5
1378	BAE Systems Plc	10.5	0.2	1.9	10.5
1379	BAE Systems Plc	10.5	0.2	1.9	10.5
1380	BAE Systems Plc	10.5	0.2	1.9	10.5

Mines - Contd

1990/91	Stock	Price	Div	Yield	P/E
1381	BAE Systems Plc	10.5	0.2	1.9	10.5
1382	BAE Systems Plc	10.5	0.2	1.9	10.5
1383	BAE Systems Plc	10.5	0.2	1.9	10.5
1384	BAE Systems Plc	10.5	0.2	1.9	10.5
1385	BAE Systems Plc	10.5	0.2	1.9	10.5

Plantations

1990/91	Stock	Price	Div	Yield	P/E
1386	BAE Systems Plc	10.5	0.2	1.9	10.5
1387	BAE Systems Plc	10.5	0.2	1.9	10.5
1388	BAE Systems Plc	10.5	0.2	1.9	10.5
1389	BAE Systems Plc	10.5	0.2	1.9	10.5
1390	BAE Systems Plc	10.5	0.2	1.9	10.5

Mines

1990/91	Stock	Price	Div	Yield	P/E
1391	BAE Systems Plc	10.5	0.2	1.9	10.5
1392	BAE Systems Plc	10.5	0.2	1.9	10.5
1393	BAE Systems Plc	10.5	0.2	1.9	10.5
1394	BAE Systems Plc	10.5	0.2	1.9	10.5
1395	BAE Systems Plc	10.5	0.2	1.9	10.5

Regional & Irish Stocks

1990/91	Stock	Price	Div	Yield	P/E
1396	BAE Systems Plc	10.5	0.2	1.9	10.5
1397	BAE Systems Plc	10.5	0.2	1.9	10.5
1398	BAE Systems Plc	10.5	0.2	1.9	10.5
1399	BAE Systems Plc	10.5	0.2	1.9	10.5
1400	BAE Systems Plc	10.5	0.2	1.9	10.5

Traditional Options

1990/91	Stock	Price	Div	Yield	P/E
1401	BAE Systems Plc	10.5	0.2	1.9	10.5
1402	BAE Systems Plc	10.5	0.2	1.9	10.5
1403	BAE Systems Plc	10.5	0.2	1.9	10.5
1404	BAE Systems Plc	10.5	0.2	1.9	10.5
1405	BAE Systems Plc	10.5	0.2	1.9	10.5

Australians

1990/91	Stock	Price	Div	Yield	P/E
1406	BAE Systems Plc	10.5	0.2	1.9	10.5
1407	BAE Systems Plc	10.5	0.2	1.9	10.5
1408	BAE Systems Plc	10.5	0.2	1.9	10.5
1409	BAE Systems Plc	10.5	0.2	1.9	10.5
1410	BAE Systems Plc	10.5	0.2	1.9	10.5

Notes

1990/91	Stock	Price	Div	Yield	P/E
1411	BAE Systems Plc	10.5	0.2	1.9	10.5
1412	BAE Systems Plc	10.5	0.2	1.9	10.5
1413	BAE Systems Plc	10.5	0.2	1.9	10.5
1414	BAE Systems Plc	10.5	0.2	1.9	10.5
1415	BAE Systems Plc	10.5	0.2	1.9	10.5

Regional & Irish Stocks

1990/91	Stock	Price	Div	Yield	P/E
1416	BAE Systems Plc	10.5	0.2	1.9	10.5
1417	BAE Systems Plc	10.5	0.2	1.9	10.5
1418	BAE Systems Plc	10.5	0.2	1.9	10.5
1419	BAE Systems Plc	10.5	0.2	1.9	10.5
1420	BAE Systems Plc	10.5	0.2	1.9	10.5

Traditional Options

1990/91	Stock	Price	Div	Yield	P/E
1421	BAE Systems Plc	10.5	0.2	1.9	10.5
1422	BAE Systems Plc	10.5	0.2	1.9	10.5
1423	BAE Systems Plc	10.5	0.2	1.9	10.5
1424	BAE Systems Plc	10.5	0.2	1.9	10.5
1425	BAE Systems Plc	10.5	0.2	1.9	10.5

Australians

1990/91	Stock	Price	Div	Yield	P/E
1426	BAE Systems Plc	10.5	0.2	1.9	10.5
1427	BAE Systems Plc	10.5	0.2	1.9	10.5
1428	BAE Systems Plc	10.5	0.2	1.9	10.5
1429	BAE Systems Plc	10.5	0.2	1.9	10.5
1430	BAE Systems Plc	10.5	0.2	1.9	10.5

Notes

1990/91	Stock	Price	Div	Yield	P/E
1431	BAE Systems Plc	10.5	0.2	1.9	10.5
1432	BAE Systems Plc	10.5	0.2	1.9	10.5
1433	BAE Systems Plc	10.5	0.2	1.9	10.5
1434	BAE Systems Plc	10.5	0.2	1.9	10.5
1435	BAE Systems Plc	10.5	0.2	1.9	10.5

Regional & Irish Stocks

1990/91	Stock	Price	Div	Yield	P/E
1436	BAE Systems Plc	10.5	0.2	1.9	10.5
1437	BAE Systems Plc	10.5	0.2	1.9	10.5
1438	BAE Systems Plc	10.5	0.2	1.9	10.5
1439	BAE Systems Plc	10.5	0.2	1.9	10.5
1440	BAE Systems Plc	10.5	0.2	1.9	10.5

Traditional Options

1990/91	Stock	Price	Div	Yield	P/E
1441	BAE Systems Plc	10.5	0.2	1.9	10.5
1442	BAE Systems Plc	10.5	0.2	1.9	10.5
1443	BAE Systems Plc	10.5	0.2	1.9	10.5
1444	BAE Systems Plc	10.5	0.2	1.9	10.5
1445	BAE Systems Plc	10.5	0.2	1.9	10.5

Australians

1990/91	Stock	Price	Div	Yield</
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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Banks continue selling dollars

THE DOLLAR finished lower in the London close yesterday, but two trading days co-ordinated central bank intervention hardly dented the market's enthusiasm for the currency.

At the London close there was no sign that the Federal Reserve had been active. Earlier in the day several European central banks, including the Bundesbank, joined in coordinated intervention.

Apart from supporting the dollar, the Bundesbank sold dollars and bought yen, and the Bank of Japan sold yen and bought dollars.

The Bank of England also reported in the market that it had bought dollars and sold yen, but that it had not intervened in the dollar market.

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IN NEW YORK

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STERLING INDEX

STERLING INDEX		
	Mar 12	Previous
100 = 1980-1989	93.4	93.5
100 = 1990-1991	93.3	93.5
100 = 1992-1993	93.3	93.5
100 = 1994-1995	93.3	93.5
100 = 1996-1997	93.3	93.5
100 = 1998-1999	93.3	93.5
100 = 2000-2001	93.3	93.4
100 = 2002-2003	93.3	93.4
100 = 2004-2005	93.2	93.4

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NEW YORK STOCK EXCHANGE COMPOSITE PRICES

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March 13 1991

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SOUTH AFRICA

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INDUSTRY AND THE ENVIRONMENT

SECTION III

Wednesday, March 13 1991



Although fresh advances are being made by many industries in the developed world to

meet stricter environmental controls, the pressures for a cleaner planet are continuing to intensify, says John Hunt, Environment Correspondent

Rising levels of concern

PRESSURE on industry to improve its environmental performance has steadily increased during the past year and all the signs are that it will continue unabated for many years to come.

The "green revolution" is driven by tougher national legislation and international agreements aimed at reducing pollution and cutting the massive amount of waste produced by consumer societies.

A recent report by the Paris-based Organisation for Economic Co-operation and Development (OECD) warns that despite the present recession, the massive consumption in its 24 member-countries - which include western Europe, the US and Japan - will place an immense strain on the world environment and resources.

These industrialised countries represent only 16 per cent of the world's population and 24 per cent of its land area. But their economies account for about 72 per cent of the world's gross product, 78 per cent of all road vehicles and 50 per cent of global energy-use.

In response to the raised level of environmental concern, business increasingly has to re-examine the entire industrial process. This involves a

"cradle-to-the-grave" approach, assessing the environmental impact of manufacturing, the raw materials used, energy employed, effluents and emissions produced and the final disposal of waste products.

Considerable improvements have, in fact, already been made by industry to meet the environmental challenge. Total energy consumption by industry in OECD countries has fallen about 40 per cent since 1970 - following the significant rise in oil prices, plus efforts by industry towards greater energy-efficiency - while their contribution to gross national product has remained stable.

In Sweden, for example, the paper industry's water requirements halved between 1960 and 1980, while its output doubled.

Despite the initial fears of industrialists, pollution control does not seem to have been unduly costly. Some estimates put it at 0.8 to 1.5 per cent of GNP in the industrialised world. The resulting reduction in environmental damage is believed to be far greater.

International chemical companies - especially the Dutch, German and Swiss - have substantially advanced their efforts on pollution control in



Massive oil spills and blazing oil fields are taking a severe toll of the Gulf environment. Above, a Saudi government officer, Mohammed Al-Hader, examines an oil-coated dead cormorant at Khafji. Black stains on the beach are caused by oil after an estimated 11m barrels were released by Iraqis from Kuwaiti terminals. See page 4: Costly clean-ups. (Picture by Bob Gordon).

the past decade. Corporate environmental programmes have been adopted as an integral part of a strategy to set goals and improve a company's "green" performance.

An important accessory in a wide range of industries is the use of the environmental audit to measure accurately whether environmental targets are being achieved.

Acquisition audits are increasingly used to assess the environmental quality of a company which may be taken over. This is widely employed in the US where a company may acquire a competitor only to find itself liable to pay huge sums to clean up pollution damage on its property.

Audits frequently bring to light outdated methods and wasteful use of materials which can then be remedied.

Considerable financial savings can often be achieved by changing procedures without the need for heavy capital investment in new technology.

Another important tool is the environmental impact assessment to see what effect the expansion of an existing plant or the acquisition of a new site will have on the surrounding environment. For instance, when acquiring a new site, IBM carries out a study to define the quality of the surrounding environment and to assess any emissions to land, air or water.

Environmental concern has, meanwhile, opened up big new markets for the sale of "green" technology to control pollution - from catalytic converters to reduce car emissions to electronic equipment to monitor processes and filtration systems to improve water quality.

A British "think-tank," the Centre for Exploitation of Science and Technology, estimated recently that around £140bn could be spent on cleaning up the environment in the UK over the next ten

years. For Europe, it estimates the sum at £280bn over the same period and for the US, £1,060bn.

These massive sums would be spent in measures to combat the greenhouse effect, reduce depletion of the ozone layer, reduce acid rain and pollution from heavy metals, improve waste management and clean up contaminated land.

Countries with lax environmental regulations could, however, lose out on this huge potential as their industries would not have the incentive to build up a home-base from which to export environmental technology.

Meanwhile, international pressures for a cleaner planet continue to build up. Meetings of government officials take place throughout this year to draw up a framework convention to reduce greenhouse gases.

This process culminates next year at the world Environment

and Development Conference in Brazil. Despite the scepticism of some academics and scientists about the validity of the greenhouse hypothesis, the international momentum towards a global convention appears unstoppable.

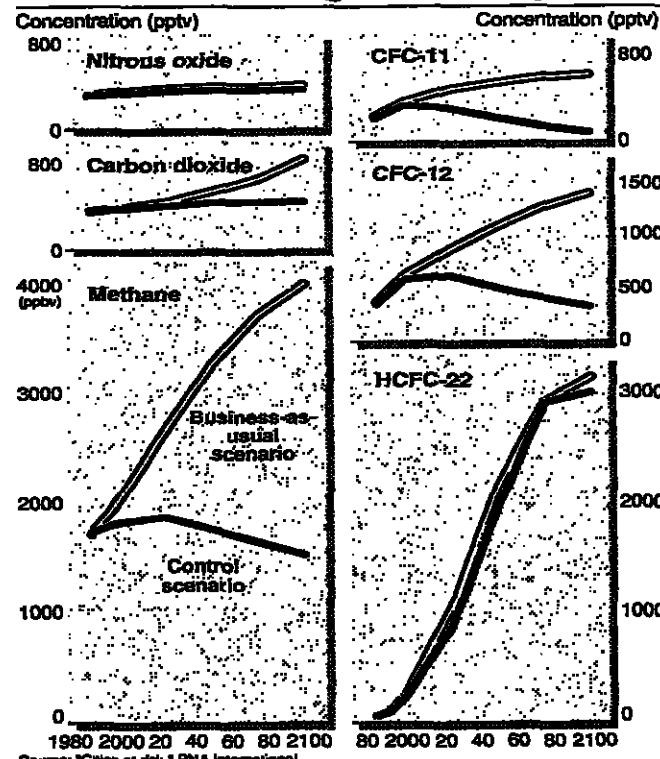
Such an agreement will have a substantial impact on the use of coal and oil, the fossil-fuels which produce carbon dioxide, the main greenhouse gas.

The European Commission in Brussels recently proposed targets for large rises in the tax on petrol which would "give a clear signal to cut carbon dioxide emissions and protect the environment."

In western Europe, the tightening of national pollution regulations is often driven by tougher European Community agreements initiated in Brussels.

The EC Commission is working on its fifth environmental action programme it a move towards completion of the internal market by next year.

Concentrations of greenhouse gases



Source: "Cases at Risk," BNA International

☐ Atmospheric concentrations of the main "greenhouse gases," which many believe lead to global warming, rise substantially in these projections by 200 scientists of the Intergovernmental Panel on Climate Change. The "control scenario" assumes there is a shift away from the use of fossil fuels. See page 2: Tough choices yet to be made.

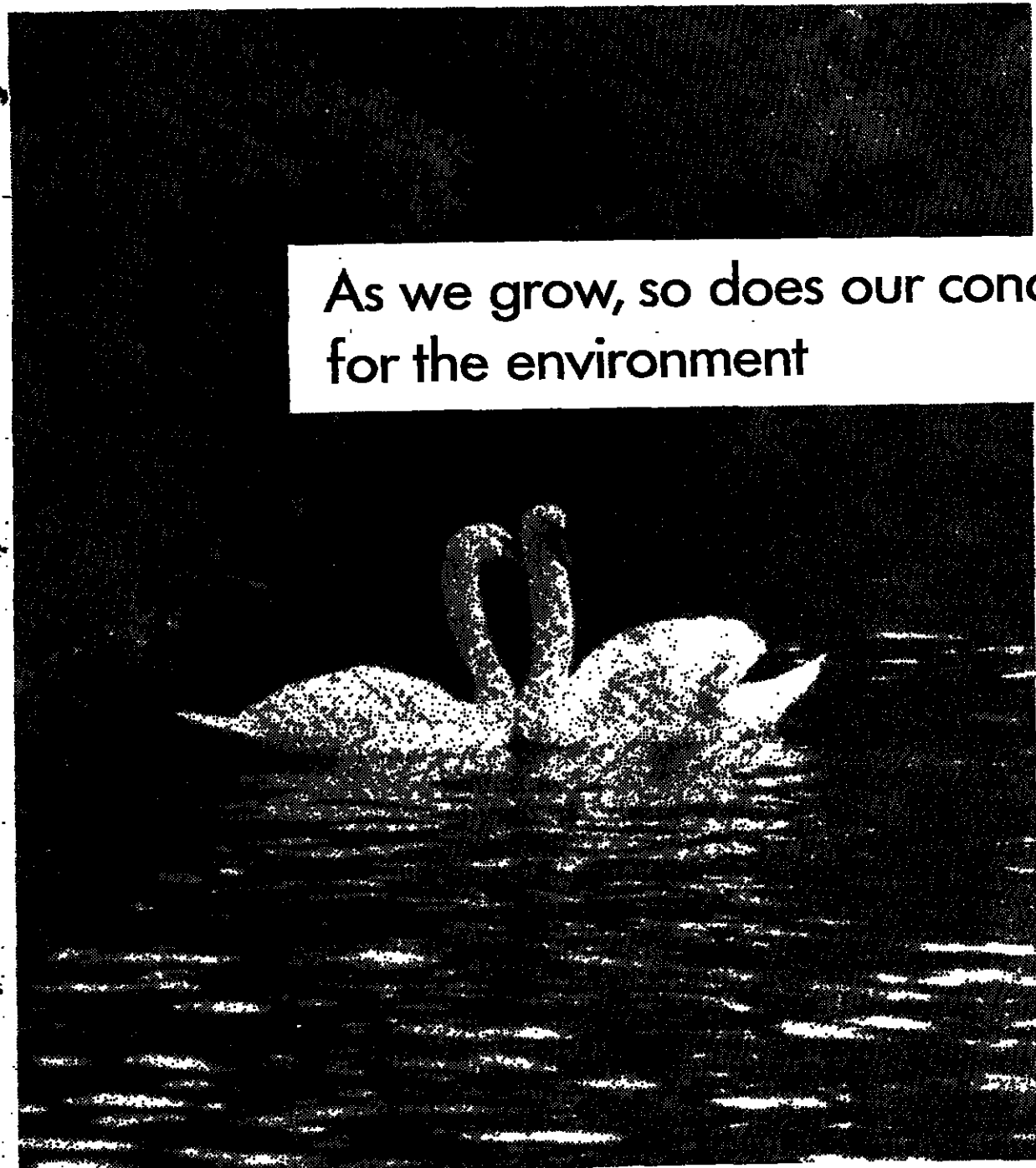
☐ ALSO IN THIS SURVEY: Global warming; economic levers for industry; European comparisons: Page 2.

☐ Chemicals; oil; CFCs; waste controls; Better Environment Awards For Industry: the winners are announced today: Page 4.

☐ Transport; electricity; forestry; environmental audits; green unit trusts; Pages 6 and 7.

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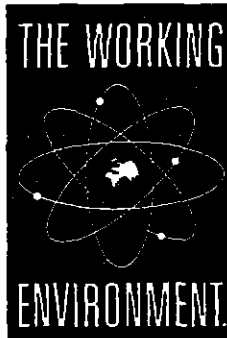
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INDUSTRY AND THE ENVIRONMENT 2

Steps towards combating the threat of global warming

Tough choices yet to be made

RECENT snowfall in the Algerian Sahara desert was the first for 30 years and the UK has suffered its coldest weather this year since 1887 - events which undermine the arguments of some scientists who claim that the world is getting inexorably warmer.

But the proponents of global warming say that, just because central London receives nine inches of snow, is no reason to be complacent about the destruction of the ozone layer. The progression towards an increase in the world's temperature by 1°C in 2025 is a trend which does not mean every year will be hotter than the

Grand proclamations to prevent global warming have so far resulted in little specific action, reports

Deborah Hargreaves

Last November, Mrs Margaret Thatcher, who was then the UK prime minister, was urging swift action to draw up an international convention to combat global warming. Her views have been echoed by leaders across the world who, in high-fluting hyperbole, declare they will save the planet.

The 130 countries attending the World Climate Conference in Geneva in November did at least make some steps towards combating global warming by agreeing to enter negotiations to agree an international convention by 1992. This could have far-reaching consequences for the world's econ-

omy, particularly for energy and transport systems.

But so far, the grand proclamations have resulted in little specific action. Green lobbyists have been pushing governments to announce targets for cutting carbon dioxide emissions, but the world's greatest energy-user, the US, has resisted this along with the USSR - and both countries are large wasters of energy.

Europe and Japan have gone further by setting targets to cut emissions, but so far, they have been rather vague about how to achieve them. The UK, for instance, said it will stabilise its carbon dioxide emissions by 2005 which, Mrs Thatcher said, along with other measures underway, would reduce the UK's contribution to greenhouse gases by 20 per cent. But the government has come up with few specific proposals as to how this will be achieved.

Carbon dioxide emissions come from burning fossil fuels and deforestation, more specifically, vehicle exhaust fumes and industrial pollution are major causes of the so-called greenhouse gases. Mr Chris Emsworth, campaigner for the environmental group, Greenpeace, points out that the West Germans have been at the forefront of the green debate and have pledged to cut emissions by 25 per cent over the next decade - "industry sees this

as an investment decision," he says, "they can make money out of it." The Germans are leading the market in anti-pollution equipment such as desulphurisation machinery and Japan is putting a lot of money into research. But President George Bush's recently-released national energy strategy gives few sops to the greens. The plan announces moves to

boost domestic oil production, rather than rely so heavily on imported oil, but says little about conservation.

The report recommends only a study of changes in car mileage efficiency, rather than raising standards as many environmentalists had hoped. His plan has been criticised by environmentalists as "nothing more than an answer to the

prayers of the oil, nuclear and auto industries." One of the difficulties in convincing politicians to take specific action to stop global warming is that the scientific evidence of the warming trend is not conclusive. Mrs Thatcher, speaking at the World Climate Conference said climate change may be less severe than forecast, but it might also occur more quickly

than current computer models suggest - "should this happen, it would be doubly disastrous were we to shirk the challenge now," she said. But this has proved little more than rhetoric in the face of industry's entrenched and powerful lobby. Prof. John Houghton, chief executive of the UK Meteorological Office and chairman of the UN sci-

entific panel on climate change says scientists in the panel "are certain that increased emissions of greenhouse gases will result in an additional warming of the earth's surface." But "there are many uncertainties in our predictions, particularly with regard to the timing, magnitude and regional patterns of climate change."

The scientists have called for two sorts of action to slow down global warming: the first calls for a stabilisation or reduction in carbon dioxide emissions. The second calls for action now to stabilise the concentration of carbon dioxide in the atmosphere at some level by about the middle of the next century.

In the UK government's white paper on the environment, it highlights difficult choices to be made, both for home-owners and industry. It points to the need to encourage energy efficiency, renewable energy sources and to address transport issues, but makes few specific recommendations.

However, far from putting more resources into energy efficiency, Mr Andrew Warren at the Association for the Conservation of Energy, says the government has almost halved the contribution to energy efficiency Office to £15m from £25m in 1984-1987. In addition, he maintains that the UK market for energy conservation

items such as insulation and heating controls has dropped by 28 per cent in the last two years. Government action is haphazard and has so far done little to address emissions by industry.

Environmental action groups are calling for a wider partnership between industry, government and the electricity generators to develop more energy efficient corporate strategy. Greenpeace cites a US example as the sort of co-operation it is calling for: the Bonneville power facility agreed and co-funded an energy efficiency plan for an aluminium smelter on its grid.

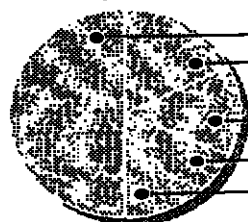
This plan decreased the overheads of the aluminium company so that it could produce consistently instead of being subject to fluctuations in world metal prices, and it ensured a consistent throughput for the utility instead of large surges in power demand.

Many large companies are being forced by the heightened awareness of environmental issues and public concern over global warming to put the environment at the top of their agenda.

Mr John Collins, chairman of Shell UK, says that, along with European issues, the environment is a major focus. Shell is involved in an environmental audit for each of its businesses which should show up areas that can then be addressed with a specific action plan. Mr Collins said the study showed the company was flaring too much gas which makes a major contribution to greenhouse gas emissions. It is now looking at how to operate its rigs safely without the need to flare so much.

The greenhouse cocktail

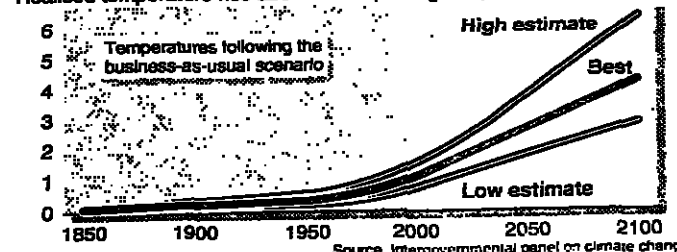
How much each gas contributes to the greenhouse effect



Source: "You and the environment," Consumers' Association

Rise in global air temperatures

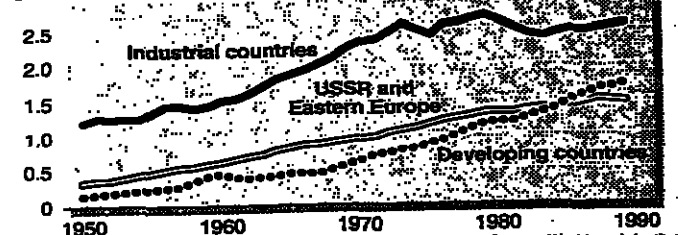
Realised temperature rise above 1765 (Celsius)



Source: Intergovernmental panel on climate change

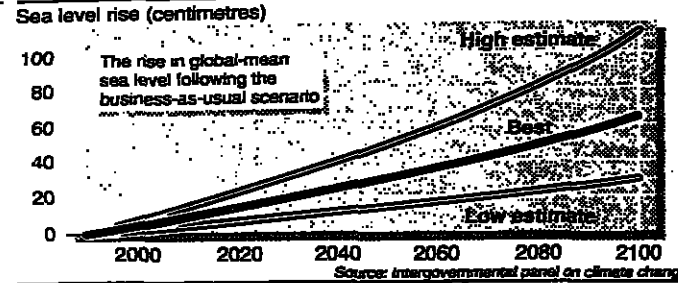
Carbon emissions from fossil fuels

Billion tons



Rising sea levels

Sea level rise (centimetres)



Source: Intergovernmental panel on climate change

New penalties and subsidies for industry

More sticks and carrots



Carlo Ripa di Meana, EC Environment Commissioner: a blossoming alliance.

ment of the Environment, covering the UK, Germany, France, the Netherlands, Italy, Norway and Sweden, Spain and Japan. It discovered that a large proportion of the revenues raised from charges was returned to the industry sector in the shape of subsidies. But the net revenue received from charges, with the exception of Germany, exceeded the value of funds redistributed to industry in subsidies.

By far the most contentious, lucrative, and politically explosive is the product or input charge, levied on products associated with environmental damage. Product taxes raise murky questions of free trade. Does the Dames' ban on imports of refrigerators using ozone-depleting CFCs, for example, conflict with the European treaty on free trade? Nobody is quite sure.

What is certain is that a much better political potato at the moment is the product charge known as the carbon tax. A carbon tax on fossil fuels is a key element of the European Community's pledge to reduce carbon dioxide emissions by the year 2000. It has been mooted that a tax based on the carbon content of fuels will be slapped on oil to top up an expected fall in the oil price after the conclusion of hostilities in the Gulf.

The blossoming alliance of Mr Carlo Ripa di Meana, the environment commissioner, with Mr Antonio Cardoso e Cunha, the energy commissioner, is symbolic of the momentum gathering at the community level for a new emphasis on environmental taxation.

Mr Stanley Johnson, environmental adviser to the UK accountancy firm Coopers & Lybrand Deloitte (and successor there to Professor David Pearce, Mrs Thatcher's green guru) regards the carbon tax as a price mechanism that will result in "massive change" of behaviour by businesses in the industrialised communities.

"Only action on the energy field will have any impact if you want to reduce by 60 per cent - 70 per cent the energy-related greenhouse gas emissions in the industrialised world," he says. "There is an increasing sense that a carbon tax is irresistible."

However, making carbon tax law will be highly problematic. The Arab oil producers and the US, the most energy-intensive country, view a carbon tax with immense distaste. The developing countries, meanwhile, who have contributed least to global warming - are also the ones to suffer most from the increased cost of importing oil.

On a political level, applying the tax could be even more divisive, however intellectually attractive and environmentally sound it appears. It would introduce a new concept of financing based on resource use taxation, separating green taxes from the system of corporate and personal taxation administered by national treasuries - "it will drive a coach and horses through one of the few powers Westminster has left," Mr Johnson says.

Any EC-wide application of energy tax would have political repercussions, especially in Denmark and the UK. The energy tax would be a big source of revenue not fixed by the Chancellor - and almost certainly amount to taxation without representation.

It would be predictable, too, if the UK fought a rearguard action against a piece of Brussels legislation with the deep implications of the proposed carbon tax.

The other main charges are: User charges, when dischargers are required to pay in respect of collection and treatment of polluted waste, for example, of sewage. In the UK, a key debate is whether there should be effluent charges into waterways, an issue that Ian

Byatt, director general of the Water Services, has urged the National Rivers Authority to study recently.

● Pollution or emission charges, levied on the specific pollutant, regardless of the direct cost of the clean-up and mostly linked with permits or standards.

● Deposit refund systems, aimed specifically to encourage recycling. Sweden and Norway has a system for car hulks, and a number of countries for beverage containers.

Despite the plethora of charges, the application of the price mechanism has not been as thorough as it could be. Governments realise that there comes a point where industry cannot carry on increasing profitability and perform environmental miracles at the same time, and that it is the voters in households - either indirectly via higher taxes, higher prices, and lower increases or reductions in government services in other areas - who pay the ultimate price for improvements.

The UK government is greening slowly, but those on the other side of the channel have tended to be greener quicker. Government action, out the world have been "considering possibilities of introducing market-based instruments" to achieve the correct price signals," wrote Mr Chris Patten in his White Paper on the environment.

Government commitment is crucial as the use of prices and charges, are only two of a range of policy instruments necessary to improve environmental quality - "the third relates to standards and enforcement. Throughout Europe, the most effective structures are found where these are used together," says ERL's report.

Rachel Johnson

The Dutch set ambitious goals to reduce pollution

World pace-setters

THE NETHERLANDS has set itself the most ambitious environmental goal to be formulated anywhere in the world - an exhaustive, thorough clean-up of the country in the space of a single generation.

In concrete terms, this lofty goal requires the Dutch to reduce their water and soil pollution by a staggering 70 per cent to 90 per cent by the year 2010.

The country's ambitious plans, which were originally drawn up in 1969 and then refined in 1980, call for air pollution to be tackled as well. Carbon dioxide emissions will first be stabilised at their current level by 1994 and then be reduced by between 3 per cent and 5 per cent by the year 2000.

This represents in itself a major reduction because without the country's new policies, carbon dioxide emissions would probably rise at an average rate of about 2 per cent every year between now and the turn of the century.

The Dutch plan is widely regarded as the most comprehensive and ambitious in the world. Its launch has helped spur other countries, notably the UK and Germany, to set out long-term environmental clean-up programmes.

The Netherlands' leading role in environmental management is no accident. The scale of its pollution problem is greater than that of any comparable western country, forcing the Netherlands perhaps to be a trend-setter in this field.

As a small and densely populated country, the Netherlands is exposed to the strongest environmental pressure which affect the living standards of the population. Thus, if the environment is to be placed on their list of priorities, they will need incentives.

This is where organisations such as the World Bank, the European Community's PHARE programme and the new European Bank for Reconstruction and Development play an important role.

The World Bank has already granted Poland an \$18m loan, which is specifically earmarked, among other things, towards devising an air-pollution control strategy for the region around Katowice and Krakow which is notorious for pollution.

Officials at the World Bank, however, are keen to stress that loans will be conditional upon the Polish government adopting tighter controls and legislation on the environment.

The EC's PHARE programme is also actively involved throughout eastern Europe. In Poland, it has issued grants for providing equipment for conserving the Mazurian lakes, in Hungary, it is providing training and equipment for the modernisation of the emission monitoring network in Czechoslovakia, it has provided financial assistance for sludge disposal at Prague's sewage treatment plant.

The European Bank for Reconstruction and Development (EBRD) is also providing advice to Romania and Bulgaria on reducing pollution.

In addition to these organisations, many consultancy firms and companies are now trying to gain an entree into eastern Europe. But unlike the 1970s and 1980s, when scores of western companies shamelessly exported their hazardous waste to the region - the communist

per square kilometre in the OECD area," the OECD noted in a recent survey.

The Dutch have by far the highest population density of any western industrialised country, and they have little room for storing industrial waste. At the same time, the country's location at the mouths of three major European rivers - the Rhine, Scheldt and Meuse - means that the Netherlands is particularly vulnerable to waterborne pollution from the heart of Europe.

In Rotterdam, for example,

The basic financial premise is that "the polluter pays," says Ronald van de Krol

the Rhine annually deposits 100,000 cubic metres of silt that is so contaminated that it cannot be dumped in the sea. Instead, the silt must be stored in a specially sealed dump.

An additional problem is the extreme intensity of Dutch agriculture, which relies heavily on pesticides and herbicides to ensure high-quality products. The success of Dutch farmers in winning ever greater crop yields from their land has left a worrying legacy of water, air and soil pollution.

The intensive livestock sector has also created a serious pollution problem - manure surpluses - whose scale is unique to the Netherlands. All these problems - soil, air and water pollution - are dealt with in the country's National Environment Policy Plan

(NEPP). Consumers, farmers and industry can expect to be presented with higher bills as the country carries out its clean-up drive.

State spending is set to rise. Overall, national spending on the environment will rise to £1.6bn a year by 1994. Of this, well over half will be borne by industry, farmers and households. In 1994, the direct cost of the clean-up programme to the average Dutch household will probably be £1.30 per year. Implementation of the NEPP is still in the early stages, making it difficult to predict its success. But it is clear that the plan may be dogged by controversy from time to time as the true costs become more apparent.

In 1989, for example, the Dutch centre-right coalition actually fell over one of the many elements of the plan - the abolition of tax deductions for commuters - though existing tensions within the government also contributed to the political sensitivity of the issue.

The NEPP plan relies on a variety of instruments to bring about a cleaner environment. Originally, the scheme was supposed to make extensive use of voluntary covenants with industrial and agricultural groups, but the government later decided to make heavier use of anti-pollution legislation and regulation.

The Netherlands is hoping that its pollution-cutting initiative will be copied in other parts of Europe. But, so far, it remains committed to pushing ahead - even if the rest of Europe fails to follow its lead.

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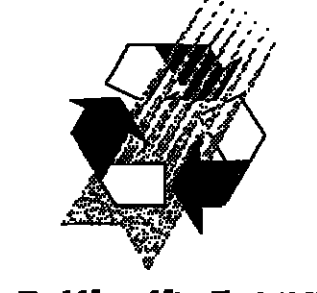
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East-west joint venture clean-up opportunities abound

Eastern Europe lacks incentives

certain feeling for the region. "We do not pretend that there is money to be made in eastern Europe. But what we want to do is to involve those who live there. We want to build bridges between local companies and those in the west," explains Ms Fanning.

The company is already working on an ambitious project. Along with two Czechs

based in Prague, they are setting up a joint venture company with the aim of attracting capital to install a Harvest Polyol Plant.

The plant, which converts fish and vegetable oils into Polyol, the primary compound in the manufacture of polyurethane, will rule out the use of petrochemicals, and therefore all waste. It would also

provide this Czechoslovak company with an export-oriented product (and hard currency) and a domestic product which could be used for the manufacture of a wide range of "green" products from upholstery for cars to furniture and adhesives.

Anyone who has visited Czechoslovakia cannot ignore the legacy the communist regime has bequeathed to the new government, or fail to appreciate the importance of a new policy towards the environment.

Industry was run on the highly-polluting brown coal, sulphur dioxide contaminated the rivers, lakes and forests.

Fanning and Hill reckon that the availability of fish and vegetable oils, which are in abundance in Czechoslovakia, could be harnessed into environmentally clean new industries. The only problem, as ever, is capital - "we need about \$2m to get this project off the ground," explained Hill.

At the moment, these governments in eastern Europe are strapped for cash. Moreover, it is only with the assistance of international financial institutions that they will place the environment higher up on the political and economic agenda.

At the moment, these governments are preoccupied with dismantling the old political apparatus, introducing economic reforms, including a review of subsidies and prices

New regulations

Continued from previous page

influence the behaviour of consumers and producers and thus encourage environmentally cleaner methods of production. Regulations will still have an important role to play. But their blanket enforcement over large sections of industry are seen as a crude way of controlling pollution, which acts as a brake on innovation - "industry prefers economic instruments as the lever for environmental improvement, rather than regulation which can lead to a rather sterile and unimaginative response," says Mr Basil Butler, managing director of British Petroleum and chairman of the Business and Industry Advisory Committee to the OECD. Industry will also feel the effects of the steady tightening of national environmental laws. UK companies are still digesting the new

Environmental Protection Act which introduces stricter measures to enforce integrated pollution control of emissions to water, air and land.

Many UK companies will face heavy additional costs in administering the regulations. There is the added burden of meeting the Act's requirement that they use the best available techniques to control pollution, even though this is not supposed to entail excessive cost.

In the US, the Clean Air Act sets tougher pollution controls on motor vehicles, industry and power-generation. Despite this, there is still relentless pressure from "green" lobbyists for tighter US anti-pollution measures. They also criticise the US administration for failing to set firm targets for cuts in carbon dioxide emissions, although the US is the biggest producer of this greenhouse gas.

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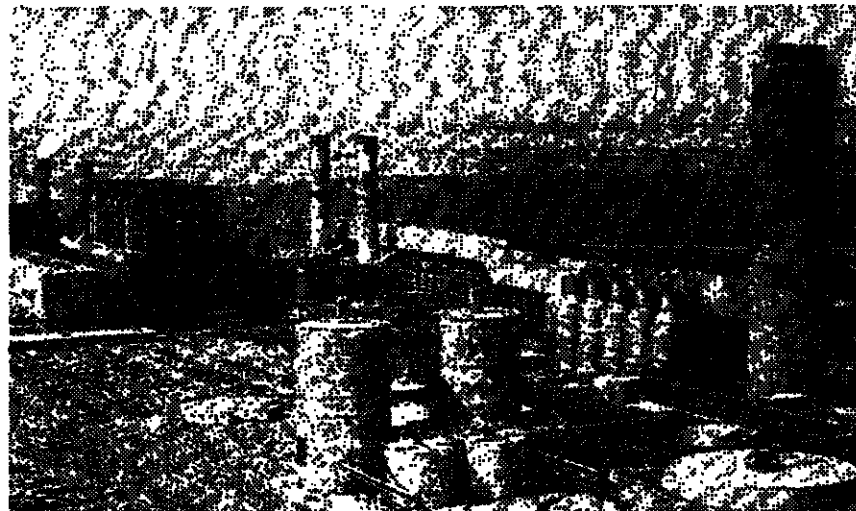
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INDUSTRY AND THE ENVIRONMENT 4

The battle to reduce chlorofluorocarbons

Search for substitutes

CHLOROFUOROCARBONS are the first important class of industrial chemicals to be phased out of production by international agreement.

After convincing scientific evidence was published, linking CFCs to the destruction of the ozone layer in the upper atmosphere, governments signed the Montreal Protocol in 1987. It laid down a timetable for cutting production of the five main CFCs by 50 per cent over 10 years.

Last year, in the face of new evidence that ozone was being destroyed more rapidly than even the most alarming predictions of 1987, the Montreal Protocol was extended to include all other CFCs and related compounds, called halons. Under the terms of the revised protocol, all production of CFCs must stop by the year 2000.

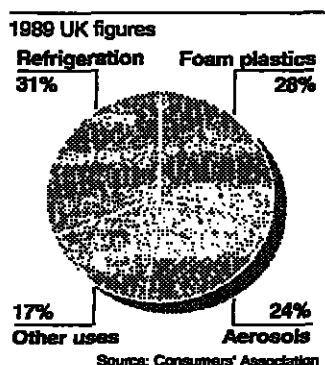
They may still be used in applications such as medicines, where CFCs are essential and irreplaceable, but these represent only a tiny fraction of today's consumption.

The European Community has agreed an even faster phase-out schedule, requiring an end to CFC production in the EC by mid 1987.

CFCs were first introduced by Du Pont, today's largest CFC manufacturer, in 1931 as safer alternatives to toxic refrigerants such as ammonia and sulphur dioxide. Their virtues - chemically stable, non-toxic and non-inflammable - meant they were adopted very fast, first for refrigeration and later for a wide range of other roles including propellants for aerosols, blowing agents for plastic foams and cleaning fluids for electronic components.

According to Du Pont, CFCs are used in a total of 5,000 different applications to produce

What CFCs are used for



Source: Consumers' Association

goods and services worth \$30bn a year. More than \$200bn worth of installed equipment worldwide depends on CFCs.

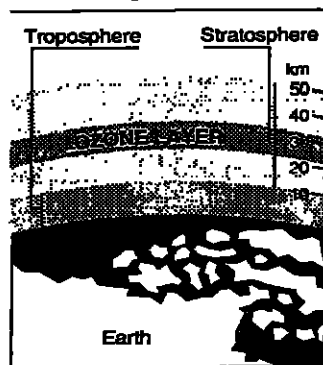
CFCs are therefore so important to the world economy that their production could not be stopped immediately. Some users are finding it easier than others to substitute different chemicals for CFCs.

Aerosol manufacturers have already phased out CFCs as propellants for deodorants, hair sprays and other personal items. Most are using hydrocarbon substitutes. Only a few medical and military aerosols still use CFCs.

The electronics industry is weaning itself off CFCs and using water-based cleaning fluids instead. CFCs are also disappearing fast as blowing agents in fast-food packages such as hamburger cartons. They are proving more difficult to replace in insulating foams for buildings and refrigerator and freezer walls.

But the most important application of CFCs is still as coolants for all types of refrigeration, from domestic fridges and car air conditioners to supermarket chiller cabinets

Ozone layer's location



and industrial deep freezers. These account for about 40 per cent of CFC consumption.

The chemical industry is developing a family of fluorocarbon compounds - hydrochlorofluorocarbons (HCFCs) and hydrofluorocarbons (HFCs) - to replace CFC refrigerants in different applications.

HCFCs contain no chlorine and therefore have no impact on the ozone layer. HCFCs still have some chlorine but they have on average less than 5 per cent of the ozone depletion potential of CFCs.

The most promising of the new generation of refrigerants is HFC-134a, which the industry is promoting as a substitute for CFC-12, the coolant used in domestic refrigerators, car air conditioners and some small commercial units.

At least eight companies say they are planning commercial-scale HFC-134a plants, though it is unlikely that all will be built. ICI of the UK was first to announce plans, with its \$30m 134a plant commissioned at Runcorn, Merseyside, last October. Du Pont followed close behind with a plant which came on stream at

Corpus Christi, Texas, in December. ICI and Du Pont hope to have three 134a plants each, running by 1995: one in the US, one in Europe and one in Japan.

Companies are developing other CFC substitutes for commercial and industrial refrigeration. Last month, for example, Du Pont launched HCFC-123 as a substitute for CFC-11 in large building air conditioning systems with centrifugal chillers.

For many other applications in refrigeration and freezing, no single chemical will work as a CFC substitute. In these cases a blend of chemicals is required.

Rhône-Poulenc Chemicals, UK subsidiary of the French group, has concocted a blend of HCFC-22 with propane and octafluoropropane as a "drop-in" replacement for R-502, a widely-used CFC refrigerant in supermarket freezers and cold stores. HCFC-22 on its own will not work with existing compressors designed for R-502.

The new fluorocarbon replacements for CFCs require more complicated production processes than the original materials.

In addition, the manufacturers have substantial investment costs to recoup (Du Pont says it has already spent \$200m developing CFC alternatives) and estimates that its expenditure could exceed \$1bn over the next 10 years.

The substitutes are therefore considerably more expensive than the CFCs they replace. Although the market is still too new to give a clear indication of prices, it is likely that the substitutes will cost three to five times as much as CFCs.

Clive Cookson

The Better Environment Awards for Industry

Winners announced today

COMPANIES CONTINUE to make breakthroughs in environmental technology and design and to adapt their management structures to take account of "green" awareness on the part of the public, writes John Hunt.

Initiatives in this field are encouraged by the Better Environment Awards for Industry which announced this year's winners today.

The four main awards go to: ICI Katalco of Billingham (part of ICI Chemicals and Polymers) which receives the pollution abatement technology award.

BP Chemicals, Hull - the green product award.

Body Shop International - the environmental management award.

Peter Garman and Barbara Sexon, consulting engineers of Rothbury, Northumberland - the award for developing technology which is appropriate for developing countries.

ICI developed a catalytic technology for the destruction of chlorinated caustic effluent streams. The system converts the waste into re-usable oxygen and brine.

Sir Frederick Warner, chairman of the award assessors, said the system, known as Hydcat, was an innovative solution to deal with a particularly unpleasant waste stream in a cost-effective way.

It is easily integrated into a modern chemical plant and has potential application world-wide.

Dr Martin Fakley, product manager for ICI, said the previous methods of dealing

with the waste were difficult to operate and required constant attention - "We have cracked a world-wide problem," he said.

BP Chemicals developed a liquid de-icer for airport runways which is harmless to groundwater, plant and animal life. The product, known as Clearway 1, is easily biodegradable and there is no waste in its manufacture.

The company spent two years on research and testing to come up with a product complying with strict aerospace performance requirements and corrosion specifications.

Approval

It is faster-acting with better ice-melting ability and surface friction properties. It is being marketed in Scandinavia and Germany and has been approved by key European airports and environmental protection agencies.

The assessors say that Body Shop, the leader in the manufacture and retailing of natural cosmetics, has incorporated concern for the environment into every aspect of its operations.

The company recently carried out an internal environmental audit of its operations and is to commission an external "green" audit.

The management structure has been reorganised and each department now has an environmental adviser who will work with the company's environmental research department.

The needs of developing countries can often be met by the design of simple, waste technology which is cheap to run, rather than the introduction of expensive high-tech machinery. Peter Garman and Barbara Sexon have developed a water power turbine for irrigation in developing countries using simple technology which can be produced, maintained and used by the local population.

It avoids the use of a diesel pump which poor, rural populations find more expensive to buy and maintain. Using energy from the Nile they hope the turbine will enable vegetable plots and smallholder agricultural belts to flourish in the deserts of the Sudan.

ICI has received a commendation for pollution abatement technology for controlling and eliminating the use of CFCs (chlorofluorocarbons) in its computer manufacturing plants at Kilsgrave, Staffordshire, and Ashton-under-Lyme, Manchester.

A commendation in the green product category goes to Pax Gums of Highgate, London, for developing a lead-free pellet for airguns.

A project for extracting and recycling CFCs from domestic fridges and freezers, developed by Iceland Excess Foods, has received a commendation for environmental management.

The awards are sponsored by the Environment Foundation, Department of the Environment and Shell UK. They are promoted by the Confederation of British Industry and the Financial Times.

WASTE MANAGEMENT

The grip tightens

Waste management is going through a period of rapid change to meet the demands of tougher regulations and higher environmental standards.

Meanwhile, the recession has meant some fall-off in the volume of waste, particularly from Britain's hard-hit construction sector - "this is putting pressure on the industry," says Mr Frank Argent, director general of the National Association of Waste Disposal Contractors. "Some waste compa-

nies are cutting costs, but it is important that standards are not reduced."

However, there is still a vast quantity of waste from a wide variety of sources and this helps disposal companies to protect themselves against the worst effects of the recession.

Britain generates about 100m tonnes of industrial waste for disposal on land each year and households produce another 20m tonnes - one tonne for each household.

The volume of waste in the 24 industrialised countries of the Organisation for Economic Co-operation and Development has grown steadily to 9m tonnes in 1990. This includes 420m tonnes of municipal waste and 1.5m tonnes of industrial waste of which 300m tonnes were hazardous.

Britain's new Environmental Protection Act imposes a duty of care on producers of waste. This legal obligation to safely dispose of waste means that they will have to pay for it to be handled by professionals, rather than risk employing cut-price "cowboy" operators.

The Department of the Environment's recent white paper sets out future policies right across the environment. It states bluntly: "The Government's policy is to harness market forces more effectively to encourage waste minimisation. One effect of this will be to make waste disposal more expensive."

Pressures like this have led to consolidation of the waste management industry into larger units in a series of takeovers and mergers, many of them on an international scale.

This trend has been driven by the expense of providing improved expertise and more advanced technology in response to the demands of the "green" revolution. During the second half of last year there was intense takeover activity within the industry.

Rechem, which operates two large incinerators for the destruction of toxic waste in

Britain and is negotiating to build a third in Italy, merged with Shanks and McEwan, a leading UK waste management company.

Shanks has a large bank of landfill sites which are a valuable asset at a time when they are becoming more scarce and the cost of purchasing and using them continues to escalate. Its interests in the treatment of solid and liquid wastes are complemented by Rechem's high technology incinerators.

Leigh Interests of Walsall purchased a large waste disposal company, HT Hughes of Portsmouth, Severn Trent, the privatised water company.

Financial pressures have led to recent takeovers and mergers in the waste management industry, reports JOHN HUNT

took a 29 per cent stake in the Caird Group during an aborted takeover attempt. Another privatised water company, Wessex Water, has moved into the waste business by forming a joint venture with Waste Management of the US, one of the world's biggest industrial and domestic waste disposers.

The new venture, Wessex Waste Management, will be involved in waste disposal and recycling of waste, industrial treatment, landfill sites and conversion of waste to energy.

There are plenty of problems ahead for the industry - the agreement to ban the dumping of sewage sludge in the North Sea means that water companies will have to build about a dozen large incinerators to dispose of the 10m tonnes of such waste annually.

This will involve them in considerable expense. It is also expected to arouse strong opposition from local residents in the areas where it is proposed to locate the plants.

To reduce the flow of waste, some countries have adopted deposit schemes which oblige shopkeepers to accept the return of containers and packaging. Germany plans to make traders accept the return of unnecessary packaging from April next year and to introduce deposits on a range of packaging from 1993.

News Release, 90/74. Directorate General, Environment, Nuclear Safety, Civil Protection, Commission of the European Communities, Brussels.

The Ecological Studies Institute, 292 Pentonville Road, London N1.

Regional Environmental Centre, 1035 Budapest, Odudu, Miklos Ter 1.

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HAZARDOUS WASTE MANAGEMENT NEW REGULATION AND NEW TECHNOLOGY by Brian Price

Are you fully aware of the many issues affecting your company's waste disposal methods?

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Do you realise the possible consequences for failing to comply with existing legislation?

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Improving pollution controls by the chemical industry

Big increase in spending

"FIFTEEN years ago the environmental protection department at this plant consisted of one man - now there are 24 people in environmental protection here," says Dr Ernst Wagner, head of environmental services at Grenzach, a dye-stuffs factory run by Ciba-Geigy, the Swiss chemicals giant, in the south-western cor-

ner of Germany. Until the early 1970s, liquid waste from Grenzach was pumped untreated into the River Rhine - like that from countless other chemical plants down the polluted river.

Now the plant has an elaborate waste treatment system: wastes that can be broken down by micro-organisms

undergo biological treatment; non-biodegradable wastes are destroyed in a new "wet air oxidation" unit which started operating last year. The two units cost DM180m (\$50m) to build and their operating costs are about DM55m (£19m) a year.

Grenzach is a microcosm of the effort being made by the chemicals industry worldwide to clean up what many chemical company executives admit in retrospect was appallingly negligent treatment of the environment.

All international chemical companies have greatly increased their expenditure on pollution control over the past decade. German, Dutch and Swiss companies made most of the spending during the 1980s, shamed by the widely publicised pollution of the Rhine. But other European and US chemical groups are also implementing ambitious environmental programmes.

Comparing the environmental spending plans published by the industry, because definitions vary from one company to another and so do their circumstances. The three big German companies - BASF, Bayer and Hoechst - probably have a somewhat easier task than their competitors in other countries; each has a large centralised production base on the Rhine, at which it is simpler to install comprehensive waste treatment facilities than at the more decentralised plants of other companies.

Ciba-Geigy, for example, has chemical plants dotted around its home base of Basle, Switzerland, surrounded by residential neighbourhoods - "we're much more exposed to the public living around the plant than the big German companies, which almost have a corridor *separatus* around their plants," said Dr Kaspar Eigenmann, head of Ciba-Geigy's corporate safety and environment department.

ICI, the leading UK chemical group, announced last November that it would double environmental expenditure to £1bn worldwide over the next five years. ICI's environmental spending has increased from £50m in 1985 to an estimated £125m in 1990 and a planned average of £200m a year from 1991 to 1995. That will be more than 20 per cent of the group's total capital expenditure.

ICI's target is to cut the output of all wastes by at least 50 per cent by 1995 - "we will pay special attention to those which are hazardous and we will try to eliminate all off-site disposal of environmentally harmful wastes," said Sir Denys Henderson, ICI chairman.

Any new ICI plant "will be built to standards that will meet the regulations we can reasonably anticipate in the most environmentally demanding country in which we operate that process," Sir Denys said. That will most often mean adopting standards from the US, Netherlands or Germany.

Until now environmental protection in the industry has focussed on "end-of-pipe" measures - removing and destroying harmful chemicals in the waste streams coming out of chemical plants. But during the 1980s the emphasis will switch gradually to altering the manufacturing processes themselves so that they produce less waste.

Possibilities include: changing chemical reactions so that the yield of desired products increases and fewer unwanted by-products are generated; using fewer harmful solvents, particularly chlorinated organic solvents; decreasing the number of filtration steps, which generate waste liquids; and controlling conditions in reaction vessels more closely, with the help of on-line computer analysis.

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A DIVISION OF WRc

An immense task in eastern Europe

Continued from page 2:

governments were eager for hard currency and independent pressure groups were too weak to counter this, or insist on the implementation of the battery of environmental legislation at this time, the emergence of public accountability in the region means that western companies have to tread carefully.

In addition, because the new governments of eastern Europe want to move much closer to the European Community, they are anxious to bring their environmental legislation - and practice - into line with EC guidelines.

Thus, consultancy firms such as Environmental Resources; Arthur D Little; a whole range of accountancy firms such as KPMG; and companies including ICI, are actively aware that they must promote a "green image."

KPMG, for instance, say they are advising an international hotel chain in developing a green strategy which includes using low-energy light bulbs, controlling heating and air-conditioning and recycling and minimising waste.

Groups such as the London-based Ecological Studies Institute (ESI) and the Budapest-based Regional Environmental Centre, welcome these developments. But they would also wish to see the local popula-

tion having a stake in the cleaning up of eastern Europe. Duncan Fisher, who directs the ESI's east European programme, believes that western firms should provide training for the local population and that businesses setting up in the region, should liaise more closely with local non-governmental groups about how they see the future development of their own areas.

Peter Hardy, the executive director of the Regional Environmental Centre, which is financed by the US, the EC and the Hungarian government, hopes the Centre will provide a data base for the region's environmental problems.

"We want to be able to monitor the developments in the environment - which problems should be tackled, which companies can help clean the environment, and also we want to seek advice from us about the credentials of a prospective investor who wants to set up a factory or restructure a factory," he explains.

Judy Dempsey

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Environmental Resources Limited, 106 Gloucester Place, London W1.

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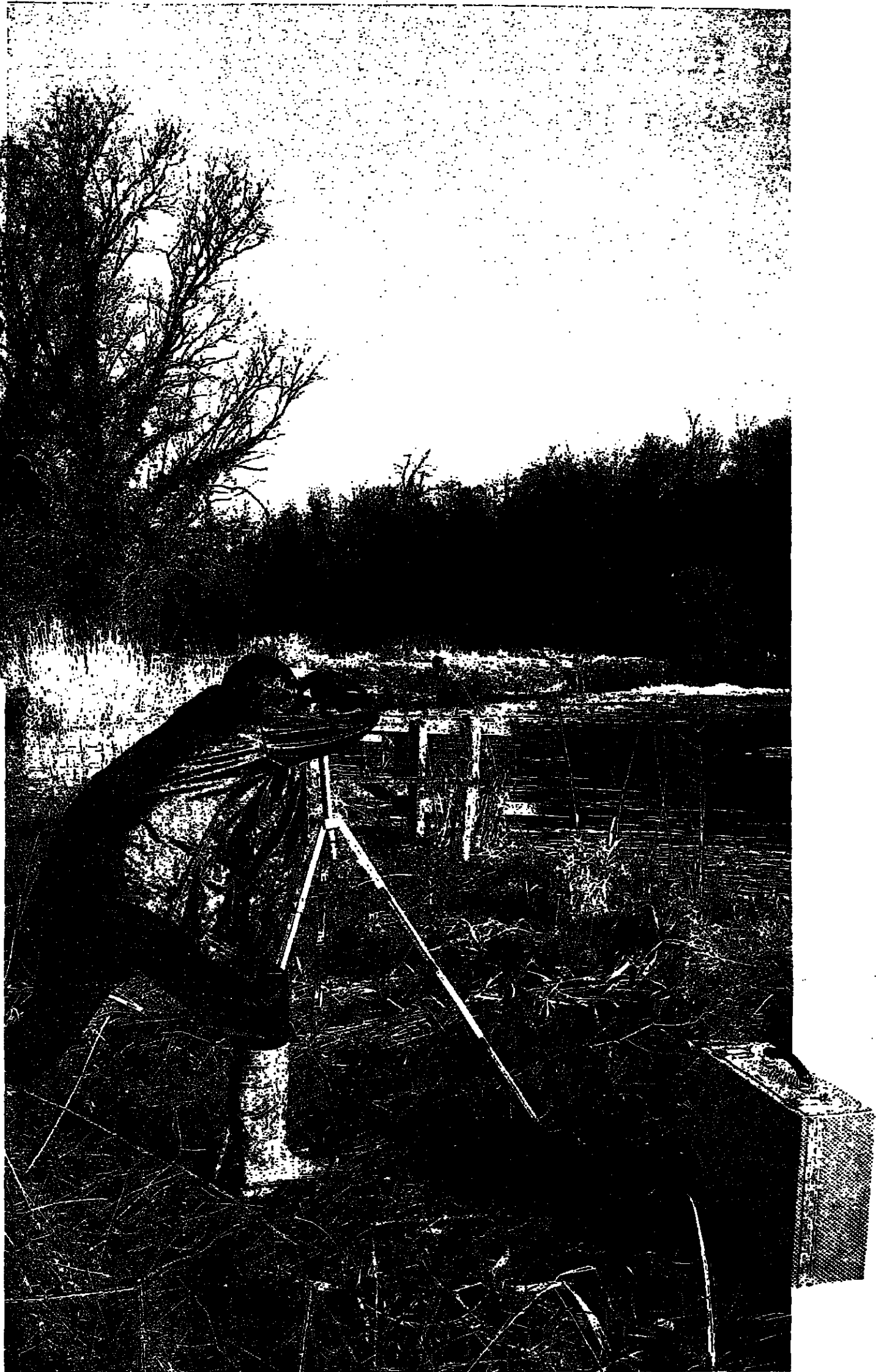
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Bill Coleman, talented amateur photographer
and investment banker with an environmental focus.



Bill Coleman believes the environment is a sound investment.

Bill Coleman is not an ecologist, he's a banker.

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"There can be no doubt about the scale of opportunity for companies which can help bridge the gap between the demand for energy and the realities of protecting our environment", says Coleman.

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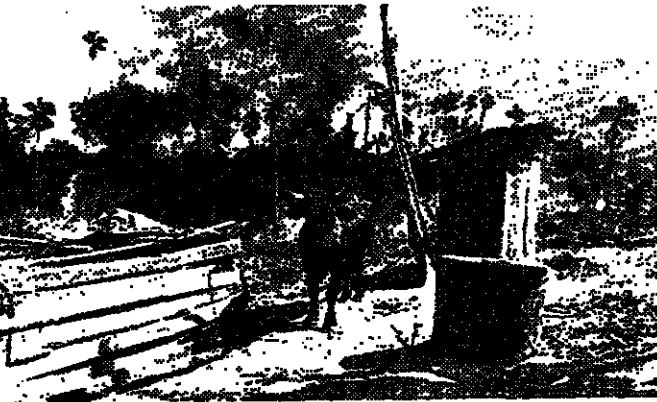
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INDUSTRY AND THE ENVIRONMENT 6

Further initiatives to safeguard
the world's rain forestsNew levels of
awareness

A burning forest in Rondonia, Brazil

last month. The forum aims "to improve understanding among all those concerned with the future of tropical forests, be they in government, the timber industry, the environmental groups or the academic research establishments," and then influence both policy and action.

But these positive signs do nothing to lessen the urgency of the need for action, according to Mr Frances Sullivan of WWF. World demand for timber is growing by 2 per cent a year.

At that rate of deforestation, there will be no forests left by 2050, outside the national parks and protected areas.

The UK timber trade has come to realise that it must help to safeguard the world's forests if it is to ensure future supplies - "this is an equally valid reason which stands alongside all the other reasons for preserving the forest," according to Mr Geoffrey Pleydell, adviser to the Timber Trade Federation.

Most of the UK's tropical timber is imported from East

Asia, where Thailand has moved to being a timber importer, and the Philippines has stopped exports because of anxiety over its depleted resources.

"The environmentalists have been immensely successful in raising this problem. The argument now is how to get change," says Mr Pleydell, an enthusiastic advocate of timber as an environmentally sound material.

"We believe wood is the best material around - you cannot grow more steel or oil. Manufacturing aluminium, steel or bricks requires an enormous amount of energy - if really pushed you can use a hand saw with timber."

However, the problems of creating sustainably managed forests in developing countries remain formidable in the face of exploding populations, rural poverty and bad land practices. "We have to find some way of motivating countries with immensely complex problems," says Mr Pleydell.

Much hope is focussed on the International Tropical Tim-

ber Organisation (ITTO), which held its first meeting in 1987 and now has more than 40 members from both exporting and importing countries. But it has not achieved much so far.

"They are so very slow," says the WWF's Mr Sullivan, who believes it is caught between its twin aims of promoting the trade in timber at the same time as conserving the forests.

Nevertheless, WWF is hoping that when the ITTO meets again in Quito, Ecuador in May, it will be possible to come up with a tracing and authentication system so that internationally traded timber would have a seal of approval if it came from sustainably managed forests.

The Friends of the Earth - probably the most strident denouncer of rain forest devastation - remains critical of both the timber trade and the ITTO, and holds a generally pessimistic view of the outlook for the forests.

Mr Simon Counsell of FoE said the ITTO had no means of checking, appraising or monitoring the impact of the projects it set in hand. One such project in Bolivia had had a disastrous impact on the indigenous population by opening up their lands.

He attacked as misleading timber trade figures on the amount of timber taken as a commodity. Logging interests continued to move into primary moist forest areas, opening them up to the people who then move in to practice slash and burn agriculture. Selective logging led to destruction of up to 50 per cent of the remaining forest by heavy machinery, he said.

All of us have a responsibility to ensure that we are not party to an environmental problem," says Mr Counsell. "Until they stop importing tropical timber (the timber trade) must be held culpable."

Increasing awareness among European consumers could speed up the progress towards sustainably managed timber, argues Mr Sullivan, who believes people would be prepared to pay a premium for it.

David Blackwell

Spills lead to extremely costly clean-ups

Shocks for the oil industry

TELEVISION pictures of oil-clad birds and seals struggling out of a murky slick have an extremely emotive effect on public opinion.

Furthermore, up to 15 per cent of Kuwait's oil reserves will go up in smoke, following Iraqi destructiveness.

The emirate now watches in horror as around 6m barrels a day go up in thick black smoke, damaging oil reserves and reducing the amount of sunlight reaching the earth, thus reducing the temperature in parts of Kuwait by several degrees.

The war has caused one of the world's worst oil spills where an estimated 11m barrels were recklessly released into the Gulf by the Iraqis from Kuwaiti oil terminals.

Saudi Arabian officials say the slick could cause a major ecological disaster because the Gulf is a closed sea which forms the habitat for many rare sea mammals and birds.

With a bulk commodity which is regularly transported round the globe, and then refined by an intricate process which relies on a feed of water, the oil industry is highly vulnerable to the sort of environmental accidents that make such bad press.

The public outcry that followed the Exxon Valdez oil spill into the sensitive waters of the Alaskan wildlife refuge has had repercussions for the company lasting several years, during which its image has been severely dented.

One of the difficulties in anticipating major oil spills - particularly those at sea - is that they are often caused by human error.

Mr Collins says that, although you can never achieve a standard which is 100 per cent foolproof, companies have to ensure that the standards are clear. They have to pay close attention to the selection of crew and institute adequate checks and balances.

Shell operates an accreditation scheme whereby it will only charter ships that meet a set of high standards and it endeavours to monitor the ships without notice.

But while many major oil companies have introduced tight standards for the shipping of oil, there are still weak spots in the international tanker market.

In an initiative which resulted from the Exxon Valdez disaster, 90 countries drew



US clean-up crew vacuums oil off Galveston Bay beach

WORLD OIL RESERVES BY REGION

Region	Reserves, 1989 (in barrels)	Reserves, 1990 (in barrels)	% share of 1989 reserves	Remaining reserves (years)
Middle East	362	600	65	110
Latin America	70	125	12	51
USSR, E.Europe	68	60	6	13
Africa	55	59	6	28
Australia	39	47	4	10
North America	38	42	4	10
Western Europe	23	18	2	13
TOTAL	655	1,011	100	44

*Reserves at 1989 production rates. Outside of the Middle East, much of the cheap oil has already been consumed. Production by the Soviet Union and US is now declining. Data sources from BP Statistical Review of World Energy.

up an emergency system to deal with oil spills last year under the auspices of the International Maritime Organisation.

The new IMO convention, which took 16 months to draw up, goes into much detail about international co-operation in cleaning oil slicks and calls for a system of emergency stockpiles of anti-pollution equipment to be established around the globe.

It also requires ships to have detailed plans for dealing with pollution emergencies. Captains of vessels and port authorities will be required to report such incidents without delay. However, the convention limits the liability of an oil company for a spill to \$80m and for this reason, has not been ratified by the US. So far, only 15 countries have signed the treaty, which makes it of little value.

Oil spills are incredibly costly to clean up. Exxon's bill for the Valdez slick came to over \$2bn. Federal politicking in the US has kept the Administration from agreeing to the liability limitation and this means oil tankers calling at US ports have to bear huge insurance costs.

This led Shell to suspend crude oil deliveries by its own tankers to US ports last year and many other oil companies have followed. Mr Ian McGrath, who heads Shell's international shipping operations, says that since a number of responsible shipowners are not calling at US ports, this lowers the quality of ships calling there and increases the risks of an accident.

"We believe the best way of preventing a major incident is to ensure the ship's crew are competent navigators and to put a major focus on training," he said.

There has been a big debate in the industry over whether alcohol should be allowed on board tankers. But many in the industry believe a total ban on alcohol is probably ineffective. The US Academy of Science is reviewing the designs of tankers in an effort to try and cut down on pollution and this should be concluded by the end of the month.

The Gulf oil slick and the incomplete destruction by Iraq up to 800 Kuwaiti wells has subsequently shown the speed of the international response to limit the subsequent damage.

Accidental oil slicks are probably inevitable: all the industry can do is try to formulate a quick response to them and improve the training of ship crews in a bid to minimise the risks of a major incident.

Deborah Hargreaves

Contribution of
greenhouse gases
by sector

- ☐ Energy: 48 per cent
- ☐ Industry: 24 per cent
- ☐ Deforestation: 14 per cent
- ☐ Agriculture: 13 per cent

Contributions (by country or area) to annual net emissions of greenhouse gases:

- US: 18 per cent
- USSR: 12 per cent
- OECD: 12 per cent
- Brazil: 10 per cent
- China: 7 per cent
- Japan: 4 per cent
- Other OECD: 3 per cent
- India: 4 per cent
- Rest of the world: 34 per cent

Source: Organisation for Economic Co-operation and Development, 1991 Environment Report WPI.

A rocky time in the green investment sector, but...

Optimism in the long-term

"FADDISH" is how some investment advisers describe the green investment sector. Many are scathing of the way the unit trust industry has jumped on the green bandwagon, but then that is the way of the unit trust industry - its favour of the moment may be green, but the Eastern European or Pacific rim, according to what the marketing men think will woo the private investor.

A survey of socially responsible funds conducted last summer by Valin Pollen, London, showed that over a third of financial intermediaries questioned do not recommend green and ethical funds to

their clients, mainly because they consider them gimmicky and bad performers.

Recent months have been a rocky time for unit trust investors in general and the green and ethical sector is no exception. Green funds have sprung up over the last two or three years so the performance records do not extend over a long period.

If you invested £100 in a green or ethical unit trust three years ago, it will probably have shrunk or provided a very meagre return (in many cases under-performing a humble building society account).

James Capel follows the green sector closely and com-

piles various green indices. Roger Hardman, who is head of green investment research at James Capel, points out that green stocks performed well in the spring and early summer of 1990, but warns: "Green stocks tend to outperform the rest of the market in bull markets and under-perform when the market goes down."

He points out that one reason for the strong performance of green stocks in bull markets is the shortage of suitable environmentally sound companies. Those that become well-known as green stocks soon become overpriced so investors pay a premium for the shares.

However, despite their unim-

pressive performance, green funds appear to have a loyal following. The unit trust groups claim that their market research shows a firm commitment to environmental investment among certain kinds of private investor.

Tessa Tennant, who is head of environmental research at Jupiter Tarbutt Merlin, an investment management group, points out that green investors do remain loyal even under the most trying circumstances. At a time when many of the unit trust groups have been witnessing redemptions, as has been the case in recent months - green funds such as the Merlin Jupiter Ecology fund claim that they have suffered from very few redemptions. In fact, the Merlin Jupiter Ecology fund experienced a net inflow of funds in the second half of 1990.

James Capel estimates that about £300m is now held in socially responsible funds under the green or ethical banner. In Capel's annual guide to green investment, the question is raised as to whether the astonishing acceleration of the green movement over the previous year means that there will be a backlash, "whether environmental concern will turn out to be just another fad joining the 3-D cinema, hula-hoop and the rubik cube in the dustbin of public attention."

While Hardman admits that investors become disillusioned paying a premium for shares on fancy price earnings multiples that then fail to perform, or go backwards, in many cases it makes sense for companies to improve their environmental record, regardless of whether a company has to meet stringent environmental standards, the chances are the measures it has to take will help to improve its energy-efficiency and, in the long-run, save the company money.

The worry at the moment is that with a recession, many companies will not be able to afford expensive improvements to equipment.

However, David O'Brien, environmental analyst with CIS, believes that once economic growth resumes, investment in more efficient, environmentally acceptable processes and equipment will resume, too - "In the next 18 months, companies may be reduced to doing the bare minimum required by law, but after that, the situation should improve," he says.

As Julie Linehan, marketing manager for TSB points out, the recession is a problem which will affect many companies, not just green ones. She, like many in her profession, remains optimistic about the long-term prospects for the green sector and for funds which make a policy of investing in the spectrum of environmentally-aware companies with sound managements.

ENVIRONMENTAL audits are the flavour of the month among large European companies with activities of any environmental sensitivity.

"The growth of interest since the spring of 1990 has been extraordinary. We have had more than 80 companies contact us about conducting an environmental audit. And many of them as an afterthought. And, by the way, what is one?"

So says Mr John Elkington, director of Sustainability, a UK eco-consultancy which has been at the forefront of singing the virtues of this newish management tool.

So why are so many large European companies now considering an audit as a way to manage their environmental performance? And why is there such uncertainty about their

Companies are increasingly expected to draw up their own plans for meeting environmental obligations, putting a premium on having accurate knowledge about their own pollution performance

precise nature? One of the most important factors behind the upsurge in interest has been the spread of best practice from other countries, particularly the US. Large companies in North America were much quicker to adopt environmental audits than most of their counterparts in Europe.

US companies have needed to show that they are complying with the stringent regulations laid down by US authorities like the Environmental Protection Agency.

In the litigious US, they have also increasingly been pressured by business partners concerned about being drawn into costly eco-litigation: this is especially true of insurance companies which either refused to write insurance or bumped up premiums on pollution-sensitive plants lacking an audit.

These pressures are now spreading throughout Europe. Individual governments and the European Commission are laying down increasingly tough environmental laws. Just as important is the trend to a new type of regulation,

exemplified by the system of "integrated pollution control" contained in the UK's Environmental Protection Act.

Companies are increasingly expected to draw up their own plans for meeting environmental obligations, putting a premium on having accurate knowledge about their own pollution performance.

As in the US, key business players, like investing institutions and insurance companies, are also taking a closer interest in a company's eco-record: they cannot afford to do otherwise, when liabilities from an environmental disaster can run into hundreds of millions of dollars. And to underpin the trend, the European Commission is drawing up proposals which could make environmental audits compulsory for thousands of sites throughout Europe.

So if the impetus behind environmental audits is clear enough, why is there so much uncertainty about their nature?

The simple answer is that there are several types of audit, including:

- Site audits, when a full picture is drawn up and regularly updated of the environmental performance of a site (its waste management, materials use, relations with the local community and so on).
- Compliance audits, to ensure that a company is complying with all relevant environmental regulations.
- Investment audit, often known as environmental impact assessments, to assess the environmental implications of a new project.

Takeover audits, when a full environmental survey of a site or company is undertaken prior to takeover.

• Activity audits, involving a study of an activity such as distribution which crosses business boundaries.

• Issue audits, which require an examination of how a large company is dealing with a specific environmental issue, such as reducing the use of ozone-depleting chlorofluorocarbons.

• Associate audits, when a large company insists on an environmental audit of an associated concern, such as a supplier or agent.

• And full corporate audits, which attempt to draw up a comprehensive picture of all a company's activities from an environmental point of view.

Environmental audits

An upsurge of interest

These categories are not, of course, mutually exclusive. Perhaps the most basic is the site audit, which typically involves elements of the other types of audit, such as compliance or issue audits.

Any site audit worth its name must have certain key characteristics. At least some people external to the site should be involved in order to ensure objectivity. Indeed, many larger companies now have a well-staffed corporate environmental unit which provides the core personnel for most site audits.

A reasonable amount of time, usually stretching over several days, must be devoted to the audit, which should be carried out according to a methodology clearly agreed in advance.

Among the issues which will almost certainly be covered are a site's effect on the locality; its production of wastes and emissions and their impact on

Continued on facing page, column 8

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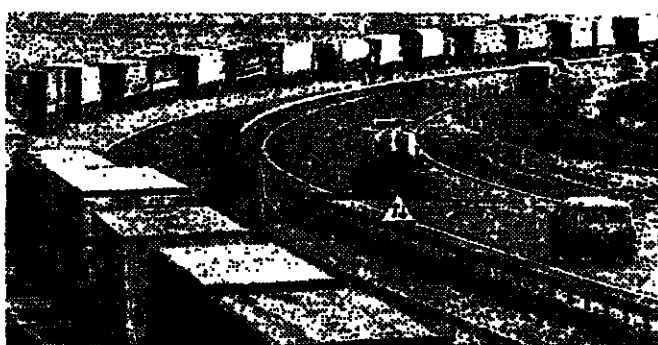
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INDUSTRY AND THE ENVIRONMENT 7

The vehicle industry

A prime target



The issue is much more complex than exhaust emissions

SOME 500m cars and up to 100m commercial vehicles are expected to be on the world's roads by the year 2000, nearly one-third more than today. By the year 2025, government agencies and forecasters suggest, this population will reach double current levels in the absence of legislation to curb vehicle use.

If all these vehicles were to remain petrol and diesel-powered, emitting similar amounts of exhaust pollution as at present, the environmental impact in urban areas would be catastrophic: traffic is already accused of generating 80 per cent of airborne pollution in most cities.

Not surprisingly, therefore, legislative bodies, research organisations and environmental pressure groups have identified the vehicle industry and users as a prime target in the battle against environmental pollution.

As a result, making vehicles "cleaner" through improved technology within the vehicle itself has leaped to the top of the vehicle industry's agenda.

But the issue is much more complex than exhaust emissions. Vehicles represent the world's single largest manufacturing industry, and the processes involved require large amounts of energy and are associated with significant pollutant emissions such as chlorofluorocarbons and solvent vapours generated by paint plants and other facilities. Of more significance yet, the manner in which traffic flows - or more typically does

not flow in major conurbations - is a major determinant of the volume of pollutants emitted by vehicles. BMW, for example, quotes research showing that in a one-square kilometre section of Munich, monitored during a one-hour period, more than half of vehicles on the move were using their fuel looking for parking places.

Last year, the Confederation of British Industry calculated that congestion-related problems such as delay and wasted fuel cost the UK economy alone some £12bn. So there are sound economic as well as environmental reasons for seeking to tackle the problems on a broad front.

In Europe, where all new cars produced after the beginning of 1993 must be equipped with catalytic converters, EC Commission experts are looking at a range of measures which should contribute to a significant drop in the total volumes of exhaust emissions. These include lower speed limits, radical traffic management schemes and support for the development of alternative fuels, such as methanol or even hydrogen, and propulsion systems, such as batteries and electric motors.

That the vehicle manufacturers are prepared for unprecedented resources to be devoted to environmental concerns was made plain in an internal document circulating in Ford of the US, late last year.

It concluded that "downsizing" cars, changing their shape to cut fuel consumption, even

introducing "zero" polluting vehicles such as electric cars, would not solve all the problems - and that urban congestion in the developed world could well become so bad that private cars' use might have to be curbed in favour of public transport.

On the immediate agenda, however, is how further to reduce emissions from vehicles - and the US industry is increasingly questioning the wisdom of some, at least, of the further legislative tightening proposed within the latest US Clean Air Act. The industry

claims that cleaning up the last few per cent of pollutants not already dealt with by existing catalytic converter systems will cost an additional \$500 per car, about the same as the cost of the entire system for dealing with the first 90 per cent. It would be more economically and environmentally sound to make regular, vigorous checks of emissions from the older cars which are responsible for around 85 per cent of the vehicle-related pollution, the industry argues.

Indeed, there is a danger that the higher prices of new cars could slow the demise of older, "dirtier" cars, claims the industry. Such exhaust emission checks are, in fact, becoming increasingly widespread, with testing stations and annual checks appearing in a number of states. The concept has already begun spreading to Europe.

Measures such as these imply extra cost for industry and vehicle users alike. Far from bemoaning them, Mr Carl Hahn, chairman of the management board of Volkswagen of West Germany, suggests

sions were cut by 80 per cent, and nitric oxide emissions by a half, between 1982 and 1989, according to one estimate. By contrast, most other EC countries still have much to do to meet the sulphur dioxide targets laid down by the EC. However, the unified Germany now faces an even bigger challenge in cleaning up the environmental disaster created through the burning of brown coal in the former communist eastern half.

In the US, the industry is having to come to terms with the recently enacted amendment to the Clean Air Act. Not only does it contain stringent curbs on acid rain pollution, it also introduces a novel system of permit trading in emission allowances.

One beneficiary is already clear: "All of these environmental issues are pointing to increased use of natural gas," said Mr Newton Campbell, chief executive officer of Kansas City-based Burns & McDonnell Engineering, at a recent FT conference on the world electricity industry.

Gas increasingly the fuel of choice for power generation throughout Europe and the US. Combined cycle gas turbine stations emit much less sulphur dioxide and carbon dioxide than coal or oil stations for an equivalent amount of heat; they also typically produce cheaper power.

Combined heat and power stations, often built by large industrial consumers of electricity, are another potential winner. Typically gas-fired, they can avoid the siting constraints which hamper conventional power stations. Indeed, according to Mr Campbell's estimates, "55 per cent of the planned capacity additions (in the US) are utility gas- or oil-fired generation or non-utility generation which is mostly gas-fired."

Big power plant manufacturers - such as Asea Brown Boveri, GEC-Alsthom, Westinghouse and Mitsubishi - are also vying to do well out of the green wave. Environmental problems are increasingly at the very top of the agenda in their huge research labs.

On the losing side, nuclear power is still doing badly out of the upsurge in environmentalism. Many observers believe that nuclear additions remain unlikely during the 1990s in countries such as Germany, Belgium, Finland and Switzerland. In the next decade, the nuclear industry can realistically hope for new orders only in France and Britain, of the main European countries. A more general revival will have to await the arrival of "inherently safe" reactor technology which could calm public fears about safety, although many inside the nuclear industry believe that the new fears about global warming could offset the industry an eco-life-line.

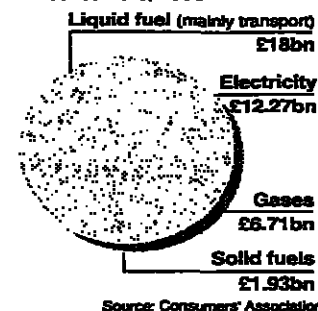
Unless these fears abate, coal-fired generation looks set to be the biggest loser of the next decade. Environmentalism, for many years ignored as an activist obsession at the fringe of debate, is now at the very centre of the industry's strategic planning.

David Thomas

*European Electric Power Trends. Cambridge Energy Research Associates, 2 Rue Duphot, Paris, France 75001. Priced at \$95.

Spending on energy

UK consumers, 1988



Source: Consumers' Association

that "we have reached an economic position in which it is entirely reasonable to anticipate that our societies can afford the added costs which are unavoidable in connection with the protection of the environment, and our governments can be expected to take notice of this."

German vehicle makers have been playing a prominent role in tackling environmental problems on a number of fronts. A few weeks ago, for example, BMW started up a pilot car disassembly plant at Landscheid, near Munich.

It is a small facility, dismantling by hand only a few cars a day. But it is seen by BMW as the forerunner to much larger plants, capable of handling tens of thousands of cars per year and which will have as their objective the recycling of new car parts, re-usable materials or even as energy - 100 per cent of the worn-out vehicles which enter their doors.

The nature of materials and processes in use in cars is already changing for environmental-related reasons. Car interiors use a lot of plastic and

foam, traditionally associated with ozone layer-destroying chlorofluorocarbons (CFCs), which are used as foaming and release agents.

The UK's Rover group has already switched to CFC-free plastics, with the exception of the steering wheel, on its new cars however, and other manufacturers are taking a similar route.

Similarly paint solvents once allowed to escape freely into the atmosphere are now captured for re-use, and with new generations of water-based paints and underseals now appearing certain to enter widespread use, will soon become redundant.

Water itself is recycled - one Volkswagen plant re-uses water seven times being finally purified it and returning it to the (rather dirtier) River Aller nearby.

In some cases, vehicle makers have been recycling materials for decades before the term has become fashionable. Mercedes, for example, has been using waste paper to make its gloveboxes for 40 years.

The big question mark, however, hangs over precisely what propulsion systems will drive the vehicles of the early 21st century. And it is becoming clear that if radical change there is to be, it will originate in smog-shrouded Los Angeles, the birthplace of the catalytic converter.

California's government is becoming increasingly desperate to clean up the smog from the 8m cars owned by the 12m inhabitants of the Los Angeles basin. It has enacted legislation requiring 2 per cent of all cars, vans and light trucks sold in the state in 1995 to be "zero emission" vehicles (ZEVs), rising to 10 per cent in the year 2003.

Barring the emergence of some unsuspected new technology, that must mean cars powered by batteries. To meet the legislation 30,000 electric cars will have to be sold in 1998 rising to 150,000 a year in 2003.

The volumes should be enough to overcome the worst of the economy of scale problems which have bedevilled

manufacturers' previous attempts to bring cost-competitive electric vehicles into production - and manufacturers have already begun throwing their hats into the ring.

General Motors plans to put into production, within two years, a purpose-built electric car, the Impact, already shown to have 100mph performance and 120-mile range. Ford, which has been working on a number of electric vehicle projects, is declared to be "definitely in the EV business for 1998".

Clean Air Transport, a Swedish-UK venture, this year will start building medium-sized electric cars destined for the "Los Angeles initiative," which aims to get 10,000 electric cars and vans on Los Angeles' roads by the mid-1990s as a voluntary forerunner to the legislation itself going into effect.

To emphasise the seriousness with which the US establishment is now viewing "electrics," last month GM, Ford and Chrysler and the US Government agreed jointly to spend more than \$1bn over the next 12 years to develop advanced battery technologies.

The emergence of viable electric powered cars, presuming that it does happen outside the peculiarly problematic confines of the Los Angeles basin, might eventually prove that some of the pessimism in highly-respected quarters is unjustified.

The Paris-based Organisation for Economic Co-operation and Development (OECD), for one, is expected to express deep concern at the long-term effect of vehicles on the environment. A soon-to-be-published report is expected to conclude that reductions in pollution achieved by the introduction of catalytic converter-equipped cars could be negated within a decade by higher traffic volumes.

Like the long-term planners at Ford it, too, sees little alternative for the future but to restrict the actual use of vehicles, almost irrespective of how "clean" they are.

John Griffiths

Increasing demand for audits

Continued from facing page:

the environment, and its compliance with environmental regulations. A written report, detailing follow-up actions, should be the most minimal outcome of such an audit.

How often should audits be carried out? Perhaps the typical pattern, where a large environmentally sensitive plant is concerned, is to follow the first comprehensive audit with spot-checks on progress every year, but to wait several years before producing another full audit.

Should outsiders be involved? Most European companies at present appear to prefer to conduct their own in-house audits. But the market for outside help is growing. Ecotec, an environmental research group, estimates that the UK audit market for environmental consultancies is £100m at present and growing by 17 per cent a year.

Should the audit be published, even if only in summary form? This is the most contentious question of all. Few companies have yet chosen to follow Norsk Hydro, Norway's biggest industrial group which has made a virtue of publishing externally validated audits of its environmental activities.

With this hotchpotch of approaches to auditing, it is not surprising that calls for greater standardisation are coming from both the authorities and some environmental consultancies. The next few years should show whether environmental audits develop into as settled a part of the business scene as their financial counterparts.

David Thomas, Resources Editor

Electricity supply industry

Hemmed in on all sides

NO MATTER in which direction it looks, the electricity supply industry worldwide seems to be increasingly hemmed in by environmental pressures.

At the macro-level, there is a green squeeze on whole segments of the industry. Its nuclear component was the first to feel the eco-heat, as a result of public reaction against the nuclear accidents at Three Mile Island in the US and Chernobyl in the Soviet Union.

But it has now been joined by the coal industry, which is blamed for being one of the main causes of acid rain and the much more intractable problem of global warming.

Meanwhile, at the micro-level, nimbys (not in my back yard) is making it more difficult for any power plant to receive planning consent in many industrialised countries.

Indeed, a recent survey of the power industry predicted the imminent spread of the "California syndrome" into Europe.

Named after a development which in California is an attempt to avoid environmental objections to new power stations. Operators build the plant outside the territory where public opposition is strongest and then import the power.

Local opposition has already effectively ruled out further expansion of both nuclear and hydro-electric facilities in many European countries, while the prospect for more large coal-fired stations seems equally bleak.

Some signs of the syndrome in Europe can already be detected, the study says. ENEL, Italy's state owned electricity utility, is discussing a plan to build 13,000 megawatts of new capacity in the Soviet Union: one quarter of the power would be exported under long term contracts to Italian consumers.

Similarly, Electricité de France and Framatome are proposing to build two nuclear power stations in Hungary, with repayments partly in power supplied to Germany and Italy.

In the UK, the protracted negotiations preceding the privatisation of the electricity industry focused attention on the high costs of environmental legislation.

The government's apparent commitment to install five gas desulphurisation equipment on 12,000MW of coal-fired capacity in England and Wales was an early casualty. Ministers were alarmed at the dent that this commitment - the main component of the UK's contribution to the European Community's programme to tackle acid rain - would make in proceeds from the privatisation of National Power and PowerGen.

As a result, the electricity industry in England and Wales was allowed to abandon 4,000MW of the programme. Both the industry and the government insisted that the EC's targets could still be met through two complementary sets of actions: more use of (predominantly imported) low sulphur coal and the construction of a new wave of gas-fired stations.

Even so, National Power and PowerGen felt obliged to include explicit eco-warnings when their privatisation prospectus was published last

SULPHUR DIOXIDE

European Commission target reduction levels compared with 1980 levels

Country	1988	1995	2003
Belgium	-40	-60	-70
France	-40	-60	-70
Germany	-40	-60	-70
Netherlands	-40	-60	-70
Denmark	-34	-56	-67
Greece	+6	+6	+6
Spain	0	-24	-37
Ireland	+26	+25	+25
Italy	-27	-39	-63
Luxembourg	-40	-50	-60
Portugal	+102	+135	+79
UK	-20	-40	-60

month - "changes in environmental regulations are likely to involve substantial additional capital and operating costs and may result in some plant closures," PowerGen's said.

The companies are worried that Britain may have to adopt the tighter limits on sulphur dioxide emissions already accepted by some other European countries.

Similarly, the industry expects a tightening of standards on emissions of nitrogen oxides, another cause of acid rain, following an EC review of existing programmes in 1994-95. Further over the horizon, but even more alarming, would be action such as carbon taxes to curb emissions of carbon dioxide, the main cause of global warming, since coal-fired power stations are the biggest carbon dioxide emitter.

Germany has so far been arguably the most successful European country in tackling the main environmental problems facing the industry. In the western half of the country, sulphur dioxide emis-



Lord Hesketth: "The time for planning is now."

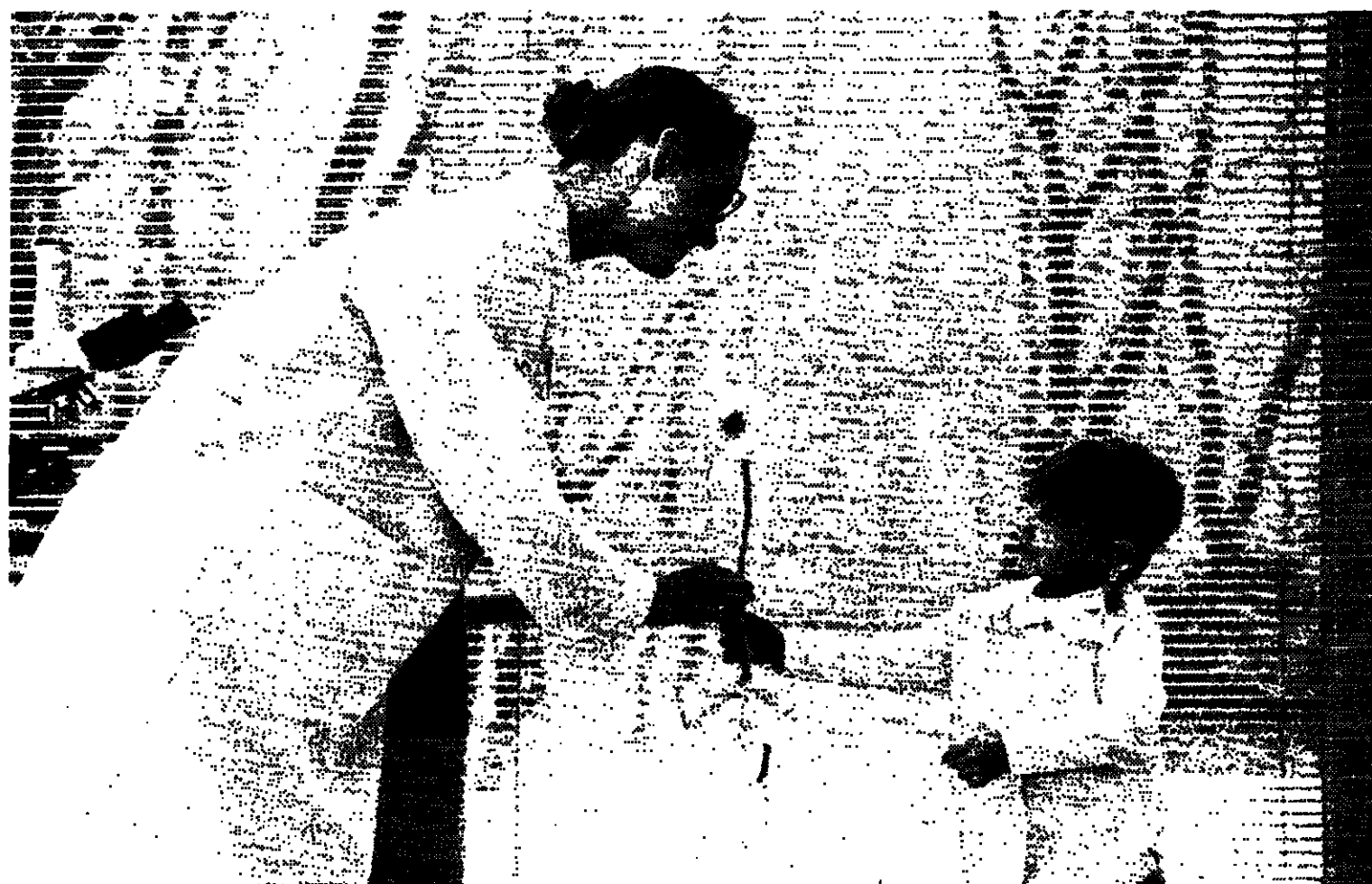
New controls in the UK

NEW CONTROLS on pollution and waste under the Environment Protection Act come into force in the UK on April 1. "These will affect hundreds of manufacturing firms," says Lord Hesketth, Minister for Industry.

Companies "will need to make a positive response. The time for planning is now," he adds. "Each firm needs to find the most cost-effective solution for its own circumstances, rather than have to adopt less efficient measures at the 11th hour as most implementation time-tables."

The government has also introduced a range of environmental technology programmes for businesses; details are available from the DTI's Environment Enquiry Point, Freephone 0800-585-794.

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tronically controlled automatic transmission. Utilizing computer circuitry, this transmission enhances the engine's already powerful character by offering three distinct modes—Sports, Economy and Winter. Plus the transmission provides an automatic downhill braking function and automatically adjusts engine performance at higher altitudes.

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